



LUND UNIVERSITY
School of Economics and Management

Audit in Change: An Analysis of the EU Audit Reform on Statutory Audit for the Case of Germany

by

Lisa Maier

Laura Warkotz

June 2015

Master's Programme in Accounting and Auditing

Supervisor: Karin Jonnergård
Amanda Sonnerfeldt
Examiner: Peter W. Jönsson

Abstract

- Seminar Date:** 4th June 2015
- Course:** BUSN69 Degree Project – Accounting and Auditing, 15 ECTS
- Authors:** Lisa Maier and Laura Warkotz
- Advisors:** Karin Jonnergård and Amanda Sonnerfeldt
- Five Keywords:** EU Audit Reform, Germany, Program Impact Theory, Regulation (EU) 537/2014, Directive 2014/56/EU
- Purpose:** The purpose of this paper is to add knowledge to the understanding in which way the measures of the audit reform are in accordance with the EC's intended objectives. This is examined for the case of Germany. The study further contributes to the program impact theory by applying this theory to a new research area.
- Methodology:** The methodology applied in this study is based on a qualitative, inductive approach.
- Theoretical Perspectives:** The theoretical framework is based on the program impact theory. This framework provides a basis for an evaluation of the assumed correlations between the measures and objectives of the EU audit reform
- Empirical Foundation:** The research question has been addressed by a qualitative document analysis of 81 documents and by a qualitative analysis of nine conducted interviews.
- Conclusions:** This study points out that three measures (external mandatory rotation, the prohibition and cap of NAS, the enhancement of the audit committee) out of four examined measures are not in accordance with the EC's intended objectives. The fourth analyzed measure, enhancement of the EU and national oversight, might accomplish the EC's intended objectives. The study also pinpoints to interdependencies between measures and objectives, which seem not to be considered by the EC. In regard to the program impact theory the study reveals that improvements of this theory are necessary and are thus applied in this paper.

Acknowledgements

We would like to thank our supervisors Karin Jonnergård and Amanda Sonnerfeldt, as well as Julienne Stewart-Sandgren for their valuable guidance and support. Also, our greatest appreciation to our interview partners who contributed immensely with their knowledge.

Further, we would like to thank our families and friends.

Lisa Maier

Laura Warkotz

Table of Contents

1	Introduction	1
1.1	Background	1
1.2	Development and Approach of the Research Question	1
1.3	Relevance and Unit of Analysis	3
1.4	Purpose and Research Question	6
1.5	Outline	7
2	Analytical Framework	8
2.1	Complexities of Regulation.....	8
2.2	Program Impact Theory	9
2.3	Problematics of Government.....	12
2.3.1	Political Rationalities	12
2.3.2	Governmental Technologies: Programs	13
2.3.3	Governmental Technologies: Techniques	14
2.4	Connecting Program Impact Theory and Problematics of Government	14
3	Methodology	17
3.1	Research Philosophy and Approach.....	17
3.2	Research Strategy	18
3.3	Data Collection Method	20
3.3.1	Qualitative Document Collection.....	20
3.3.2	Qualitative Interviews	23
3.4	Data Analysis	26
3.5	Methodological Limitations	29
4	Description of the Case	31
4.1	Development of Objectives: From the Green Paper to the Final Audit Reform.....	31
4.2	Development of Measures: From the Green Paper to the Final Audit Reform.....	34
4.2.1	Measures Accepted with Minor or No Changes	35
4.2.2	Measures Accepted with Changes.....	36
4.2.3	Measures not Accepted and Conclusion	40
4.3	Implementing Final Measures and Objectives into the Analytical Framework.....	40
5	Analysis of the Audit Reform’s Measures and their Accordance with the EC’s Intended Objectives from a German Perspective	47
5.1	German Institutional Environment.....	47

5.2	Impact of the Mandatory External Rotation of PIEs on the Corresponding Objectives	50
5.2.1	Obligated Parties and Temporal Aspects	51
5.2.2	Effects on Independence ('1A')	52
5.2.3	Effects on a Clarified Societal Role (Quality) ('1B')	54
5.2.4	Effects on Market Diversification ('1C')	58
5.2.5	Side Effect on Cross-Border Provision ('1D')	62
5.2.6	Side Effect on the Audit Committee	63
5.2.7	Implementing the Findings into the Analytical Framework	63
5.3	Impact of Prohibition of Specific Non-Audit Services and the Limitation of Non-Audit Fees on the Corresponding Objectives	65
5.3.1	Current NAS and Fee-Limit Rules in Germany	66
5.3.2	Effects on Independence ('2A')	69
5.3.3	Side effect on a Clarified Societal Role (Quality) ('2B')	72
5.3.4	Effects on Market Diversification ('2C')	74
5.3.5	Side Effect on Cross Border Provision ('2D')	76
5.3.6	Implementing the Findings into the Analytical Framework	76
5.4	Impact of the Enhanced Role of the Audit Committee of PIEs on the Corresponding Objectives	77
5.4.1	Discussion of the Measure Itself	78
5.4.2	Effects on Reinforced Independence ('3A')	79
5.4.3	Effects on a Clarified Societal Role ('3B')	80
5.4.4	Effects on Market Diversification ('3C')	81
5.4.5	Effects of EU and National Oversight Coupled with the Enhanced Audit Committee	83
5.4.6	Implementing the Findings into the Analytical Framework	83
5.5	Impact of the Strengthened Public Oversight Authorities on the Corresponding Objectives	85
5.5.1	Interpretation and Construction of the New National Oversight in Germany	85
5.5.2	Effects on Independence ('4A')	87
5.5.3	Effects on a Clarified Societal Role (Quality) ('4B')	88
5.5.4	Effects on Market Diversification ('4C')	90
5.5.5	Effects on Cross-Border Provision ('4D')	90
5.5.6	Effects on Improved Supervision and Coordination ('4E')	91
5.5.7	Implementing the Findings into the Analytical Framework	92
5.6	Summary of the Findings	94
6	Discussion	96

6.1	Contradicting Concepts in the Audit Reform.....	96
6.2	Discussion of the Program Impact Theory and the Problematics of Government... 99	
6.3	Limitations of the Findings and Future Research	102
7	Conclusion.....	105
	References	107
	Appendix A – Key Actors of Auditing in Germany	121
	Appendix B – Overview of Used Documents	123
	Appendix C – Interview Guideline	129
	Appendix D – Coding Categories.....	131
	Appendix E – Development of the Audit Reform’s Measures	133
	Appendix F – Sources Justifying the Intervening Process	139
	Appendix G – A Framework for Audit Quality	140

List of Tables

Table 3.1 - Overview of used Documents (Own Representation)	22
Table 3.2 - Interview Respondents (Own Representation)	25
Table 4.1- Comparison of the Audit Reform's Objectives (Own Representation)	33
Table 5.1- Number of Audit Clients per Audit Company and Index for 2010/2011 (Boecker, Hartmann, & Zwirner, 2013, p.158).....	59
Table 5.2 - Number of Auditor Changes, Differentiated by Direction of the Auditor Change and Company Size Categories Based on the Balance Sheet Totals of the Audited Companies (Köhler, 2010, p.3)	61

List of Figures

Figure 1.1 - Big Four Market Share / Top 20 Mid-Tier Market Share (Cited in Le Vourc'h and Morand, 2011, p.97)	5
Figure 2.1 - Conceptual Model of Program Impact Theory (Own Representation)	11
Figure 3.1 - Overview of Research Strategy (Own Representation).....	19
Figure 4.1 - Key Dates in the Legislative Process (FEE, 2014, p.59).....	32
Figure 4.2 - Transition Periods for Mandatory Rotation of PIEs (Own Representation, according to Regulation (EU) 537/2014)	37
Figure 4.3 - Analytical Framework Applied to EC's Assumptions (Own Representation).....	42
Figure 5.1 - German Auditing Institutions (Own Representation adapted from Auditor Oversight Commission, 2014).....	50
Figure 5.2 - Market Share of the Big Audit Companies in Germany on the PIE Audit Market (WPK, 2013, p. 11).....	58
Figure 5.3 - Findings of External Rotation Implemented into the Analytical Framework (Own Representation).....	65
Figure 5.4 - Fee Distribution of PIE Mandates in Germany 2013 (WPK, 2013, p.10).....	69
Figure 5.5 - Findings of Prohibition and CAP of NAS Implemented into the Analytical Framework (Own Representation)	77
Figure 5.6 - Findings of the Enhanced Audit Committee Implemented into the Analytical Framework (Own Representation)	84
Figure 5.7 - Findings of Enhanced National and European Oversight Implemented into the Analytical Framework (Own Representation).....	94

Abbreviations

APAK	Abschlussprüferaufsichtskommission, Auditor Oversight Commission (Germany)
BaFin	Bundesanstalt für Finanzdienstleistungsaufsicht (Federal Financial Supervisory Authority)
BMJV	Bundesministerium für Justiz und Verbraucherschutz (Federal Ministry of Justice)
BMWi	Bundesministerium für Wirtschaft und Energie (Federal Ministry of Economy and Energy)
CEAOB	Committee of European Auditing Oversight Bodies
DAX	Deutscher Aktienindex (German Stock Index)
DBW	Deutscher Buchprüferverband (German Certified Accounts Association)
DPR	Deutsche Prüfstelle für Rechnungslegung (German Inspection Authority for Accounting)
EC	European Commission
EGAOB	European Group of Auditors' Oversight Bodies
ESMA	European Securities and Markets Authority
EU	European Union
FEE	Fédération des Experts Comptables Européens
HGB	Handelsgesetzbuch (German Commercial Code)
IAASB	International Auditing and Assurance Standards Board
IAESB	International Accounting Education Standards Board
IPSASB	International Public Sector Accounting Standards Board

ISA	International Standards on Auditing
IDW	Institut der Wirtschaftsprüfer (German Institute of Public Auditors)
IFIAR	International Forum of Independent Audit Regulators
MDAX	Mid-Cap-Dax
MNC	Multinational Companies
NAS	Non-Audit Services
PIE	Public-Interest Entities
SDAX	Small-Cap-DAX
SME	Small and Medium Enterprises
SMPC	Small and Medium Practices Committee
SOX	Sarbanes-Oxley Act
TecDax	Technology DAX
WPO	Wirtschaftsprüferordnung (German Public Accountant Act)
WPK	Wirtschaftsprüferkammer (German Chamber of Public Accountants)

1 Introduction

1.1 Background

In the beginning of this century company scandals such as Enron and WorldCom led to a "change in climate" for the audit profession as the Sarbanes-Oxley Act (SOX) introduced major modifications to existing practices (Weinstein, 2007, p.28). Furthermore, as a consequence of these scandals it has been argued that the media's scrutiny of auditors is at least "somewhat justifiabl[e]" (Wyatt & Gaa, 2004, p.24). The criticism of the audit profession and auditors' work itself, concomitant with the American SOX led to regulation changes on the European level as well. The Directive 2006/43/EG titled "Reinforcing the Statutory Audit in the European Union" (EU) is said to be the European equivalent of SOX and is regarded as a "groundbreaking enterprise" (Humphrey et al., 2011, p.435).

The financial crisis in 2007-08 in turn did not focalize blame on auditors: rather this time regulators were questioned intensively (The Economist, 2013). Following the worldwide economic tumble, the EU published the Green Paper "Audit Policy: Lessons from the Crisis" (European Commission, 2010a, p.2) in 2010 which anticipated further changes in European audit regulation. This Green Paper was followed by the audit reform in 2014 consisting of "two legislative instruments" (European Commission, 2014b, Online), namely the Directive 2014/56/EU and the Regulation 537/2014 applying for public-interest entities (PIE). The audit reform was passed on 16th of June 2014 and requires implementation until the 17th of June 2016 (Buhleier, Niehues & Splinter, 2014a). This situation of change sets the background for this paper.

1.2 Development and Approach of the Research Question

According to the public-choice theory, regulators increase their intentions to implement new regulations after crises (Audit Committee Institute e.V., 2014), which is also the case for the audit reform following the 2007-08 financial crisis (Humphrey et al., 2011). Consequently, the EU's intention to question the efficiency of the current corporate governance mechanism and to improve audit practices are understandable and follow reasonable behavior. In order to address deficiencies which became visible during the financial crisis, the aim of the audit reform is threefold: Firstly, the reform shall clarify the "societal role for statutory auditors" by

increasing audit quality and enhancing transparency (European Commission, 2013, Online). Secondly, the auditor's independence shall be increased by reducing familiarity threats and, hence, decrease conflicts of interests (European Commission, 2013, Online). Thirdly, "a more dynamic and better supervised EU audit market" shall be established (European Commission, 2013, Online). According to the former European Internal Market and Services Commissioner Michel Barnier, the reform of the audit sector will increase audit quality and re-establish "investor confidence in financial information, an essential ingredient for investment and economic growth in Europe" (European Commission, 2013, Online).

At the same time, the audit reform raises continuous critique from various angles. On the one hand, several articles in business newspapers claim that the reform is too ambitious (see: Clausen, 2011; Hopt, 2013; Kaindl, 2012; Kaindl, 2014), on the other hand, others claim that the reform is too loose (see: Bauer, 2015; Metzger, 2012). Furthermore, most critique on the audit reform seems to be biased. The articles published in business newspapers claiming that the reform is too weak are written mostly by those opposing the Big Four (see: Bauer, 2015; Metzger, 2012), whereas the articles published in business newspapers claiming that the reform is too ambitious are mostly written in the interest of Big Four related authors (see: Clausen, 2011; Hecht, 2013; Kaindl, 2012; Kaindl, 2014). Consequently, it seems that most of the existing literature represents the opinion of interest groups such as the Big Four, mid-tier and small audit companies, as well as academics.

Since there is no uniform opinion about the audit reform this paper addresses the following research question:

In which way are the measures of the EU audit reform on statutory audit in accordance with the EC's intended objectives, examined for the case of Germany?

In order to answer the research question this paper designs an analytical framework based on the program impact theory. This theory "deals with the assumptions that guide the way specific programs, treatments, or interventions are implemented and expected to bring about change ... indicating clearly what is assumed and expected in the operation and outcomes of a program" (Donaldson & Lipsey, 2006, p.64-65). As the program impact theory is typically applied to evaluate social benefit programs this paper justifies its usage by discussing the model of description suggested by Rose and Miller (1992). These authors conceptualize regulation not only in regard to social benefit programs but from a more general approach.

Since the theory and the model of description share the same approach to analyze programs, the evaluation theory is appropriate.

1.3 Relevance and Unit of Analysis

Even though there is no agreement whether the effects of the audit reform will be desirable, there is consensus that the audit reform will reshape the audit profession, audit practice and the audit market (see: Bauer, 2015; European Commission, 2014a; Kaindl, 2011; Nicolas and Gélard, 2014). Consequently, this study has a highly practical relevance since it aims to provide knowledge about the audit reform. Furthermore, this analysis is significant as it points out interrelationships between the enforced measures and the intended objectives, which then lays the groundwork for future research in this area.

In addition, the paper is relevant for society because the intended objectives and the audit reform itself are said to have a high impact on society. Hence, the analysis, in which way the measures of the audit reform are in accordance with its objectives, is vital for society. Moreover, as the study is conducted half a year after the endorsement of the audit reform and the implementation for Member States is coming closer, the analysis is done within the interesting context of elaborated discussions amongst academics, professionals and regulators. Hence, the characteristic of being a recent topic further makes the study relevant for society, the audit profession, as well as the regulators.

Furthermore, the study is theoretically relevant since it applies the program impact theory to a new research area. Prior studies have applied this theory mainly in the field of social benefit programs, especially healthcare (Rossi, Freeman & Libsey, 2004). Consequently, a research gap persists as the program impact theory has not been applied to regulation in the field of auditing. Hence, this paper contributes by indicating a new approach to analyze audit regulation. It is, therefore, possible to add knowledge to the discussion about the connectivity between the audit reform's measures and objectives by assessing these assumed connectivities with the sophisticated and approved program impact theory. Simultaneously, this study contributes to the program impact theory by extending its application. Also, since the paper demonstrates practical interrelations between the objectives and the measures of the audit reform, it contributes to the understanding of regulation in the area of auditing. Due to the objective focus of this study, the analysis is relevant because it enables a neutral perspective to a subjectively guided discussion about the audit reform.

In order to limit the scope of analysis, a single country study is conducted. Since one objective of the audit reform is to enhance competition in the audit market, a country is chosen where the audit market is currently dominated by the Big Four. A study in 2009 revealed that when considering only listed companies “the average market share of the Big Four firms [in Europe] is above 90%” (Le Vourc’h and Morand, 2011, p.6). However, when considering all audited companies, and not only listed companies, the market share of the Big Four is moderate (Le Vourc’h and Morand, 2011). Therefore, it is argued that a country should be chosen for analysis where the market share of the Big Four is in coherence with the European trend. Among others in France, Germany and Sweden the Big Four have market shares above 90% (2009), when only considering listed companies (Le Vourc’h and Morand, 2011).

Nevertheless, it is not only important that the market share of the Big Four is high, but it is also crucial that the mid-tier audit companies have solid power in order to make the audit market more dynamic. Figure 1.1 represents the market share ratio between the Big Four and top 20 mid-tier audit companies for all audited companies. The figure illustrates that in comparison with other European countries the German market share ratio is placed in the middle (Le Vourc’h and Morand, 2011). This means that there is a dominance of the Big Four companies, but still the “mid-tier breakthrough is moderate” (Le Vourc’h and Morand, 2011, p.97). Hence, it is argued that the German audit market presents valuable characteristics for the study. Furthermore, the German audit market has the peculiarity that in 2012/2013 KPMG and PwC conducted 26 audits of the 30 highest capitalized German companies, called DAX30 (Bauer, 2015). Hence, it could be argued that a Big Two concentration is visible in Germany and consequently, it is even more vital to see if the EC’s objectives are reached in this particular country.

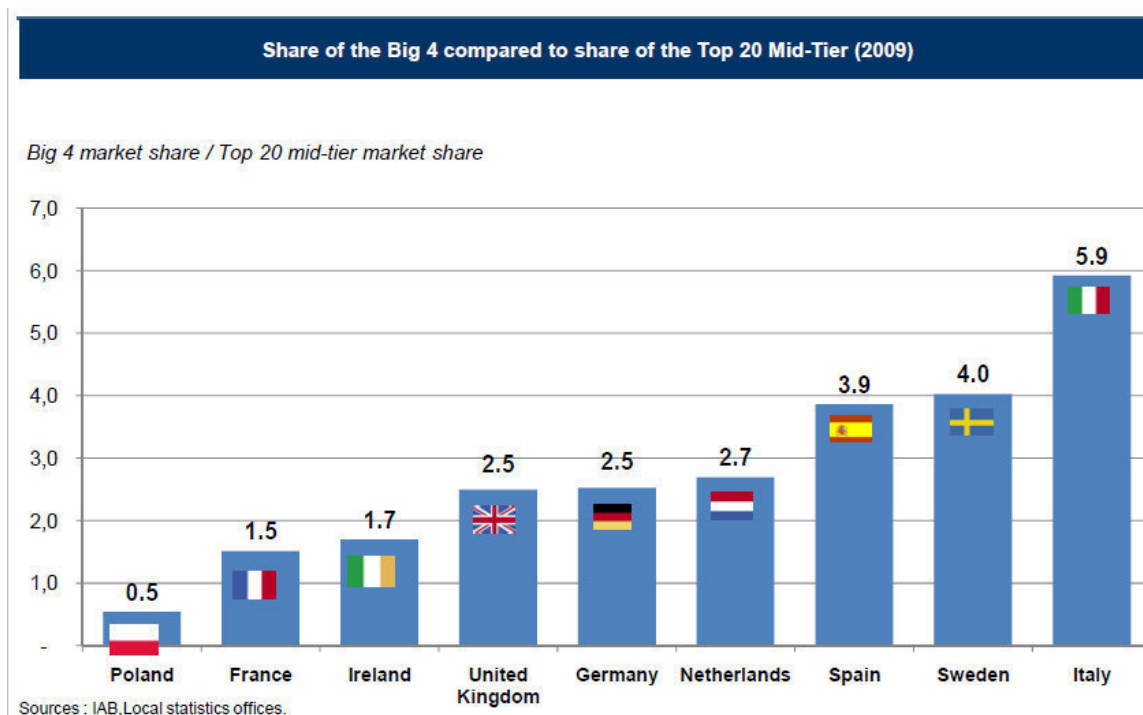


Figure 1.1 - Big Four Market Share / Top 20 Mid-Tier Market Share (Cited in Le Vourc'h and Morand, 2011, p.97)

An additional reason for choosing Germany as the unit of analysis is that statutory audits present deficiencies in Germany, just like in other EU countries. During the 2013 inspections of the German Auditor Oversight Commission (Abschlussprüferaufsichtskommission, APAK), it was revealed that every fourth of the 28 inspected audit companies had material flaws (APAK, 2013). According to the APAK, this is due to the missing critical attitude of the auditors towards their clients (APAK, 2013). This points to a lack of independence which in turn presents a deficiency that the audit reform aims to improve. Furthermore, the two-tier board system which is a distinctive characteristic of the German institutional logic (DCGK, 2014) is another reason for choosing Germany as the unit of analysis. Since the audit reform aims to increase the cooperation between the audit committee and the auditors, it will be worthy to study how this particular aspect influences the respective objectives. Since a single country study is conducted, only the major components of the audit reform that possibly trigger the intended objectives of the audit reform in Germany will be examined in chapter five.

The scope of this paper does not cover a country comparison since an in-depth single country study is intended. Furthermore, the development of the objectives does not provide an examination of lobbyism and its influence on the audit reform.

1.4 Purpose and Research Question

The main purpose of this paper is to add knowledge to the understanding in which way the measures of the audit reform are in accordance with the EC's intended objectives by applying the program impact theory. This is highly relevant since the reform is said to have major impacts on the auditee as well as auditors themselves and imbeds major challenges to the regulators of the European Member States. Hence, the intention of this paper is to provide an in-depth analysis of a recent and significant topic for society. The in-depth analysis is possible as the perceptions of major stakeholders are captured. This analysis further substantiates complexities of audit regulation as the examination facilitates a discussion about major concepts in auditing.

Besides this, another purpose of this paper is to indicate the development of the reform's measures and objectives in order to identify the underlying assumptions of their linkage. Since the program impact theory is applied to a new research area, this study aims to contribute with a new approach of analysis for audit research. Therefore, the study also aims to add knowledge to the program impact theory by demonstrating if the program impact theory can be applied in a meaningful manner to other research areas.

In order to limit the scope of analysis the directive will be analyzed in regard to the measure of strengthening the public oversight authorities of the audit profession. The regulation will be analyzed in regard to the measures of mandatory external rotation, the prohibition of non-audit services and the limitation of non-audit fees as well as the measure of strengthening the audit committee of PIE's. This approach is reasonable since frequently cited German academics, such as Velte (2014a) and Quick and Sattler (2011) suppose that these measures are the most influential on the German audit market. Consequently, the overall research question can be structured in the following way:

In which way are the measures

- 1) *'mandatory external firm rotation'*
- 2) *'prohibition of NAS and cap on NAS fees'*
- 3) *'enhanced role of the audit committee'*
- 4) *'enhanced EU and national oversight'*

of the EU audit reform on statutory audit in accordance with the EC's intended objectives examined for the case of Germany?

For clarification, in this study the term ‘in which way’ refers to the evaluation of the intervening processes between the measures and objectives which reflects the applied program impact theory.

1.5 Outline

In order to address the research question the paper is organized in the following way. The subsequent chapter establishes the analytical framework for the evaluation of the audit reform. Therefore, the theoretical background regarding complexities of regulation is described, followed by the presentation of the program impact theory which represents the analytical framework for this paper. Furthermore, the problematics of government are used as a model of description in order to transfer the program impact theory from social programs to audit regulation. Chapter three describes the methodology of this paper in order to explain the applied approach. The program impact theory, as well as the model of description from Rose and Miller (1992), suggests the following steps of analysis:

- Development of the reform’s objectives and measures over time
- Examination of the measures and their corresponding objectives

Following this approach, chapter four traces back the development of the audit reform in order to identify its underlying assumptions and to incorporate them into the analytical framework, which according to the program impact theory constitutes the foundation of analysis. The fifth chapter presents the focus of this paper. Based on a qualitative document analysis and qualitative interviews, this chapter examines in which way the measures of the audit reform are in accordance with the EC’s intended objectives by following the logic of the analytical framework. Chapter six discusses the contradictions within the concepts of the audit reform, the findings in regard to the program impact theory and the limitations of the findings. The seventh and final chapter of this paper gives concluding remarks.

2 Analytical Framework

Regulation in the EU is a complex process as it involves several levels of influence e.g. the EU and their Member States as well as several powerful interest parties. Hence, due to the regulatory complexities, regulation is often a tradeoff between different stakeholders' interests. This leads to the question in which way the implemented measures are in accordance with the EC's intended objectives or whether the measures are captured by the complexities in regulation. Therefore, the starting point for this analytical framework is a brief description of complexities in regulation. The outcome of these complexities is a program that might not necessarily be coherent with its objectives. Black (2012) even claims that "paradoxes ... of regulation ... produces the opposite effects from those intended" (p.1039). Hence, in a next step the program impact theory is explained and used since it allows discussing the outcome of regulation in a conceptual manner. Furthermore, as the program impact theory is typically applied to evaluate social benefit programs this paper justifies its usage by discussing the model of description 'problematics of governments' suggested by Rose and Miller (1992).

2.1 Complexities of Regulation

In their conceptualization of multilevel regulation Chowdhury and Wessel (2012) argue that:

... the process of regulation has undergone a dramatic change over the last two decades. It has gone from being a limited political activity of the State – that of managing the market to secure public interest goals, to that of a more open-ended process by which an independent public (technocratic) authority interacts with a host of public and private actors (regulatees) in norm formation, norm enforcement and norm adjudication within a specific public policy area. (p.337)

This development in the regulation process results in regulation being regarded as a construction of different actors due to their interactions and hence, might not solemnly reflect the states' point of view or its intentions any more (Chowdhury & Wessel, 2012). Following this argumentation Chowdhury and Wessel (2012) point out that due to the interactions of different actors on different levels, "the danger of regulatory overlap and dissonance as an outcome of lack of cohesiveness and fragmentation may lead to regulatory uncertainty"

(p.339). It can be argued that the concept of multilevel regulation shows the influences of different actors and the legal impact of this development onto regulation.

Chowdhury and Wessel (2012), therefore, argue that the outcome of multilevel regulation is that the “post-regulatory state” (p.357) is questioned as a strong and straight forward regulator due to the influences of various actors on several levels. Applying this thought to the audit reform, multilevel regulation implies that the former intentions of the EU in regard to the audit reform most likely have been shaped by various actors. Even though this paper does not address the question of who influenced the development, it seeks to show how the intentions changed over time as well as questioning in which way the measures of the reform correlate with the EC’s intended objectives. Consequently, multilevel regulation sets the theoretical background for this paper as the audit reform is endorsed by the EU which demonstrates the characteristics of multilevel regulation.

2.2 Program Impact Theory

Programmes [sic] presuppose that the real is programmable, that it is a domain subject to certain determinants, rules, norms and processes that can be acted upon and improved by authorities. They make the objects of government thinkable in such a way that their ills appear susceptible to diagnosis, prescription and cure by calculating and normalizing intervention (Rose and Miller, 1992, p.183).

As pointed out by the quote, programs and regulation in general assume that the problems of society can be addressed by regulatory intervention. However, even though problems are identified and regulators see the necessity to intervene it does not follow that the proposed solution is appropriate to address the problems. As the program impact theory analyses “the conditions of program implementation and mechanisms that mediate between processes and outcomes as means to understand when and how programs work” (Weiss, 1997, p.41), the application of this theory is reasonable for investigating the audit reform.

The purpose of this evaluation theory is to „determine if ... expectations are met“ and, therefore „to render a summary judgment on certain critical aspects of the program’s performance” (Rossi, Freeman & Lipsey, 2004, p.40). An underlying assumption of this theory is that involved actors have subjective presumptions of how the program should work and how to reach its goals (Rogers, 2007). This implies that if the logic of the program is

defective the intended outcome cannot be reached regardless of how well it is designed and implemented (Weiss, 1972). Therefore, Sharpe (2011) points out that “[t]he development of a program theory is necessary when hoping to determine why a program is succeeding or failing and if and where program improvement should be focused” (p.72). Program impact theory can be understood as “a model showing a series of intermediate outcomes, or mechanisms, by which the program activities are understood to lead to the desired ends” (Rogers et al., 2000, p.6). Suchman (1967, cited in Rogers et al., 2000) points out that “activity A will attain objective B because it is able to influence process C which affects the occurrence of this objective, An [sic] understanding of all three factors – program, objective and intervening process - is essential to the conduct of evaluative research” (p.177), and hence, program evaluation can shed light on interrelations of the three factors.

These interrelations between program activities and objectives assume a causal connection within programs. Hence, the program impact theory is applicable as “it describes a cause-and-effect sequence in which certain program activities are the instigating causes and certain social benefits are the effects they eventually produce” (Rossi, Freeman & Lipsey, 2004, p.102). The basis for this kind of evaluation is “a conceptual model, of how the program is expected to work and the connections presumed between its various activities and functions and the social benefits it is intended to produce” (Rossi, Freeman & Lipsey, 2004, p.98). Hence, “the representation of the program assumptions and expectations” (Rossi, Freeman & Lipsey, 2004, p. 98) facilitates the point of departure for the evaluation. Crucial to recognize within these assessments is the uniqueness of each program and its situation which results in a specifically tailored conceptual model for each program evaluation (Rossi, Freeman & Lipsey, 2004). Figure 2.1 represents the conceptual model of the program impact theory, which will be applied to the audit reform throughout this paper. This guides the reader through the undertaken evaluation process as it is adapted in chapter four in regard to the audit reform’s measures and the EC’s intended objectives. In chapter five the model is further extended in regard to the findings of analysis and thereby visualizes the findings of this paper which are discussed in chapter six.

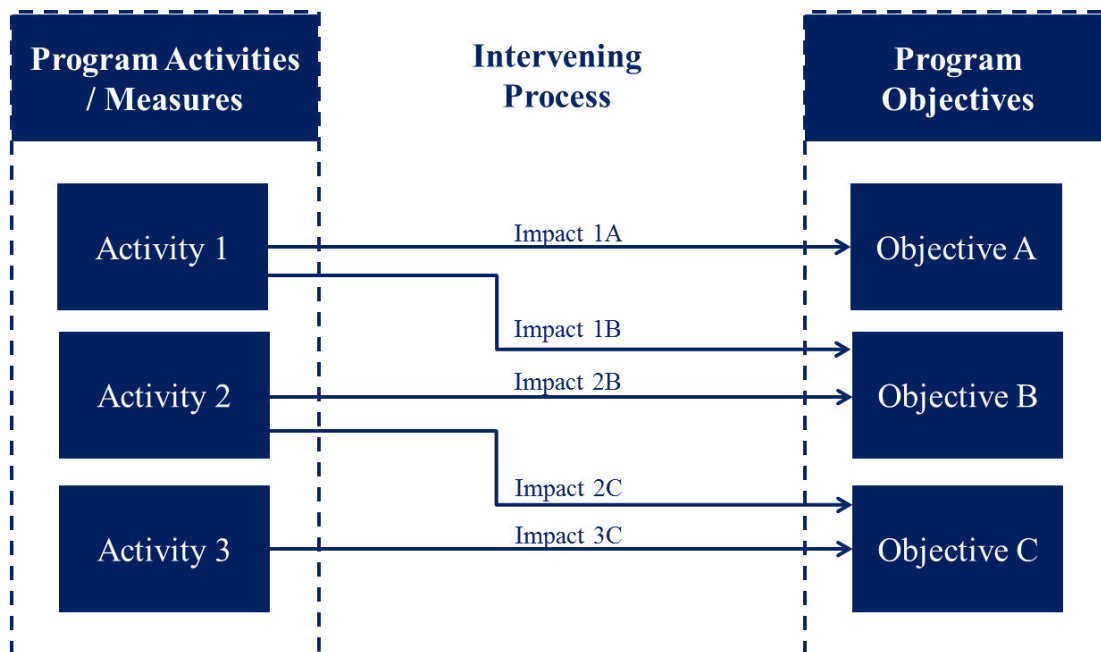


Figure 2.1 - Conceptual Model of Program Impact Theory (Own Representation)

As indicated in the graph, the impacts of the program activities are assumed to lead to the intended program objectives. If the impacts may lead to the desired objectives, represents the core question of this concept. Therefore, the routes of the arrows in the graph, or in other words the impacts, are crucial since “they constitute the means by which the program expects to bring about its intended effects. These [connections] are thus operationalization of the program’s impact theory, the assumptions about the change process actuated or facilitated by the program and the improved conditions expected to result from inducing that change” (Rossi, Freeman & Lipsey, 2004, p.100).

Coming back to the above addressed complexities of regulation, this means for the program impact theory that the “evaluators generally solicit input from all the major stakeholders and attempt to incorporate their concerns so that the evaluation plan will be as comprehensive as possible and the results as useful as possible” (Rossi, Freeman & Lipsey, 2004, p.47). By addressing all major stakeholders different, as well as conflicting, perspectives are captured. Hence, section 3.3.1 will identify the main stakeholders. This results in an in-depth investigation of the program. Furthermore, the following examination of problematics of government sets out to further understand the discourse evolving through the complexity of regulation and, therefore, extends the program impact theory.

2.3 Problematics of Government

The model of description from Rose and Miller's (1992) article titling "Political power beyond the State: problematics of government" introduces three levels of how programs evolve (programmes in the writing of Rose and Miller). Consequently, their model contributes to an understanding of underlying assumptions in programs which is important in order to evaluate the connections between the program activities and program objectives within the program impact theory. This chapter introduces Rose and Miller's (1992) approach and section 2.4 connects it to the audit reform in order to apply the program impact theory onto other fields than social benefit programs where it is mainly used (Rossi, Freeman & Libsey, 2004).

2.3.1 Political Rationalities

Rose and Miller (1992) point out that political rationalities analyze "the changing discursive fields within which the exercise of power is conceptualized, [and] the moral justification for particular ways of exercising power by diverse authorities" (p.175). Hence, political rationalities imply a dialog about actions taken and the reasoning for them. Their analysis is crucial in two ways. Firstly, it "helps us elucidate ... the systems of thought through which authorities have posed and specified the problems for government" and secondly, by analyzing political rationalities "the systems of action th[r]ough which they have sought to give effect to government" becomes visible (Rose and Miller, 1992, p.177). Consequently, the analysis of the justification for certain actions taken to address a problem allows shedding light on the intentions behind them.

Rose and Miller (1992) point out three characteristics of political rationalities which can be found in the justification for the audit reform. The first characteristic refers to the moral form of rationalities. This implies that authorities "consider the ideals or principles to which government should be directed [such as] growth [and] fairness" (Rose & Miller, 1992, p.179). As mentioned above the audit reform is justified by strengthening future economic growth, hence, showing the characteristic of moral rationality. The second characteristic of rationalities is their epistemological approach which is "articulated in relation to some conception of the nature of the objects governed" e.g. society or the economy (Rose & Miller, 1992, p.179). Addressing the clarification of the "societal role" (European Commission, 2013,

Online) of statutory audits by this audit reform, as well as the aim of economic growth, implies that the governed subjects likely mirror the need for such improvements.

Finally, the third characteristic of rationalities is their formulation as distinctive idioms. Political discourse is “a kind of intellectual machinery or apparatus for rendering reality thinkable in such a way that it is amenable to political deliberations” (Rose & Miller, 1992, p.179). This shows that idioms are necessary in order to articulate the justification in a way, that it makes political intentions acceptable or as Rose and Miller (1992) say “thinkable through language” (p.179). This might become visible in the European Commission stating “inefficient markets” during the financial crisis or the quest of the former commissioner Barnier to “maximize social welfare” (Deegan, 2011, p.42).

2.3.2 Governmental Technologies: Programs

Rose and Miller (1992) state that “government is a problematizing activity [as] it poses the obligation of rulers in terms of the problems they seek to address” (p.181). The authors explain that throughout time humans have weighted the given reality against their conception of the perfect and found themselves wanting to strive for the perfect, thus problematizing reality. This behavior of problematizing is reflected by governments and the governance of their programs. The connection between political rationalities, so to say the justification for given problems, and the articulation of the programs themselves introduces the idea of translation. Rose and Miller (1992) declare translations as “an expression of a particular concern in another modality” (p.181). Accordingly, “such translatability between the moralities, epistemologies and idioms of political power, and the government of a specific problem (...), establishes a mutuality between what is desirable and what can be made possible through the calculated activities of political forces” (Rose & Miller, 1992, p.182). These calculated activities from Rose and Miller are so called government technologies.

These government technologies include two approaches: firstly, the programs and secondly the techniques. Programs provide an “intellectual machinery for government, in the form of procedures for rendering the world thinkable, taming its intractable reality by subjecting it to the disciplined analysis of thought” (Rose & Miller, 1992, p.182). Following the justification of the audit reform, the formulation of the objectives (see section 4.1) shows the so-called programs of government in this model of description offered by Rose and Miller. Since the government addresses societal issues with formulated goals it makes the reality possible to be ruled. This activity is majorly important for the government as “this enables ‘the economy’ to

become something which politicians ... think can be governed and managed, evaluated and programmed, in order to increase wealth” (Rose & Miller, 1992, p.182).

2.3.3 Governmental Technologies: Techniques

In Rose and Miller’s (1992) model, the techniques implement the political rationalities and their programs. The techniques in this paper are the measures taken in the audit reform in order to address the objectives (according to Rose and Miller programs) of it. Rose and Miller (1992) point out “we need to study the humble and mundane mechanisms by which authorities seek to initiate government” (p.183). But why is it important to study these mechanisms in particular? Aside from other reasons offered by the authors, two interrelated implications are important for this paper.

Firstly, the objectives that are addressed by the techniques are interdependent as the powerful actors are assumed to influence them in a favoring manner for their position. Rose and Miller (1992) consequently conclude that “the problems of one [actor] and those of another seem intrinsically linked in their basis and their solution” (p.184). So, different actors have different problems and due to the governmental actions, these are addressed simultaneously. This relation becomes challenging in regard to the second implication. As each actor “seeks to enhance their powers ‘by translating’ the resources provided by the association so that they may function to their own advantage” (Rose & Miller, 1992, p.184) the model implies the following. Different problems of different actors might impact the other or present problems to actors where no problems were before. This becomes further challenged by the impact of each actor involved in the process as they will try to achieve an advantageous situation for themselves. For Rose and Miller (1992) actors translating techniques into their personal terms enables “rule at a distance” (p.184).

2.4 Connecting Program Impact Theory and Problematics of Government

Since this paper’s analytical framework is based on the program impact theory and the model problematics of government (Rose and Miller, 1992), this section points out where the theory is supported and supplemented by the model of description. Generally, both the program impact theory and the problematics of government investigate the impacts of governmental programs and raise the question whether the intended outcomes can be reached. Nevertheless, a major difference between the two approaches is their direction of investigation. Rose and

Miller (1992) start with the moral justifications which lead them to the objectives and then question the implemented measures. The program impact theory, on the other hand, questions the impact of the measures onto the objectives. As the research question implies the latter direction, the main theory used in this study is the program impact theory which is, nevertheless, supplemented by the following thoughts on problematics of government in order to transfer this theory to the research area of audit regulation.

Firstly, problematics of government have a more focused and extensive discussion about the moral justifications behind the objectives and the objectives themselves. Therefore, the extensive discussion about the development of the reform's objectives in chapter four mirrors this aspect of the problematics of government and supplements the program impact theory in this regard.

Secondly, the model of problematics of government focuses extensively on possible compromise settlements which are also pointed out by multilevel regulation. Therefore, problematics of government anticipate that the measures of the audit reform are based on compromises, which might hinder their impact. Since the program impact theory has no multilevel regulation background and originates in social benefit programs, compromises behind the measures are not considered. As a result, this study supplements the program impact theory by the thought of compromise settlements.

Thirdly, connected to the previous argument, the problematics of government recognize that the objectives are interdependent which is not identified by the program impact theory. Hence, this study implements this supplementation into the program impact theory.

Lastly, even though problematics of government address a wide range of thoughts connected to the regulation in the EU, a major restriction in this model is the lack of a structured approach for analysis. This lack results from the missing consideration of the intervening processes between the measures and the objectives. Since this paper aims to analyze these particular processes, the program impact theory is applied, but supported and supplemented by the model of problematics of government.

Accordingly, to constitute the first step in the program impact theory, chapter four of this paper applies Rose and Miller's (1992) concepts of political rationalities (objectives) and governmental technologies (measures) by tracing the development of these factors in the audit reform from the perspective of the European Commission. According to the program impact

theory, the second step consists of analyzing and visualizing the justification of the reform itself, and the articulated objectives and measures throughout its development. This presents an essential foundation to discuss the interconnections between the measures and the objectives of the audit reform afterwards.

The third step in the program impact theory is the evaluation of the logic behind the intervening processes from the stakeholder's perspective in Germany which is conducted in chapter five. Hence, this step facilitates the comparison between the EC's assumptions and the German stakeholders' perception of these intervening processes which allows to answer the research question.

3 Methodology

This chapter describes and justifies the methodology used in this study in order to answer the research question.

3.1 Research Philosophy and Approach

Philosophical positions and assumptions are important for the quality of research since a good understanding of the research philosophy helps the researcher to create an appropriate research design (Easterby-Smith, Thorpe & Jackson, 2012). This study evaluates in which way the measures of the EU audit reform on statutory audit are in accordance with the EC's intended objectives in the case of Germany. The research purpose requires gathering personal and subjective opinions as the topic is new, and a real world implementation is not in place yet. Consequently, the study is not value-free. This leads to an interpretivist epistemology of this paper. According to Bryman and Bell (2007) in an interpretivist epistemology the "social reality has a meaning for human beings" (p.20) and, therefore "the subjective meanings of social action" (p.19) have to be analyzed and interpreted from the actors' point of view. Therefore, instead of conducting a positive research, this paper is explanatory using interpretations for the understanding of social reality (Bryman & Bell, 2007). This implies that the researcher's intentions are to interpret and to create sense for one specific situation or case (Scapens, 2007) and thus, generalizations are difficult to draw upon.

In addition to the epistemological considerations, the ontological standpoint has to be considered in order to ensure high quality of this research. The present study has an ontological position of constructivism since the authors believe that "researchers' own accounts of the social world are constructions" (Bryman & Bell, 2007). This implies that this study indicates a particular version of social reality constructed "through social interactions" (Bryman & Bell, 2007, p.23) which are constantly changing (Scapens, 2007). Since opinions about the research topic have to be gathered, the interactions between the individuals involved in the collection of the information influence the interpretation (Scapens, 2007). The authors of this paper as well as the written and oral sources of information are in interaction with each other and present "indeterminate knowledge" (Bryman & Bell, 2007, p.23) where reality is a social construct.

Based on the epistemological and ontological assumptions an inductive research approach is appropriate. This implies that the model evolving from the program impact theory is built within the process of evaluation (Bryman & Bell, 2007). An inductive research approach is most appropriate since the research topic is diverse and addresses a rather unexplored topic as the audit reform is not yet implemented.

3.2 Research Strategy

Since the paper examines whether the measures of the EU audit reform are in line with their intended objectives, the program impact theory represents a suitable research strategy as explained in chapter 2.2. According to Donaldson and Lipsey (2006), program impact theory “deals with the assumptions that guide the way specific programs, treatments, or interventions are implemented and expected to bring about change” (p.64). Consequently, by “indicating clearly what is assumed and expected in the operation and outcomes of a program” (Donaldson & Lipsey, 2006, p.65), the program impact theory aims to determine the governmental technologies that are crucial for the audit reform’s success. Rogers et al. (2000) argue that literature reviews, discussions with stakeholders, “review[s] of program documentation” (p.7) and “observation[s] of the program itself” (p.7) are some of the possible methods to gain information for program impact evaluations. As the audit reform is not yet implemented, observations of the technologies are not possible and hence, a qualitative research strategy is most appropriate.

The inductive view together with the interpretivist and constructionist philosophical assumptions, as well as the program impact theory, suggest a qualitative research design. Qualitative methods are characterized by “their ability (...) to understand people’s meaning, (...) and their natural way of gathering data” (Easterby-Smith, Thorpe & Jackson, 2012, pp.27-28). This method offers the advantage that the researcher is able to “see through the eyes of the people being studied” (Bryman & Bell, 2007, p.416) which facilitates the understanding of subjective meanings held by the actors relevant for this study. Due to the topic’s actuality prior insights are modest and, therefore, the “exploratory and flexible” (Ghauri & Grønhaug, 2005, p.202) characteristics of qualitative research suit well to the research purpose. The “loosely structured approach to the collection of data” (Bryman & Bell, 2007, p.420) increases “the possibility of getting at actors’ meanings and of concepts emerging out of data collection” (Bryman & Bell, 2007, p.426). In addition, a qualitative method is appropriate since this study intends to evaluate whether the audit reform is in

accordance with the intended objectives in a specific context – in this case Germany – instead of aiming at generalizations which most quantitative research does.

Nevertheless, the selected method also has some limitations. According to Saunders, Lewis and Thornhill (2009) it is difficult to replicate the research since the specific context and time determines the research’s findings. Consequently, other researchers might interpret the same information differently; leading them to other findings or researchers conducting similar studies at different times and contextual settings might find other results. Therefore, the process of interpretation of data is critical in qualitative research (Easterby-Smith, 2012). However, by stating clearly the research strategy, its underlying assumptions and the analysis of data (see Section 3.4) the authors’ approach is open to scrutiny for other researchers (Saunders, Lewis & Thornhill, 2009). Therefore, figure 3.1 provides an overview of the study’s research strategy and the objectives of each phase of the research process.

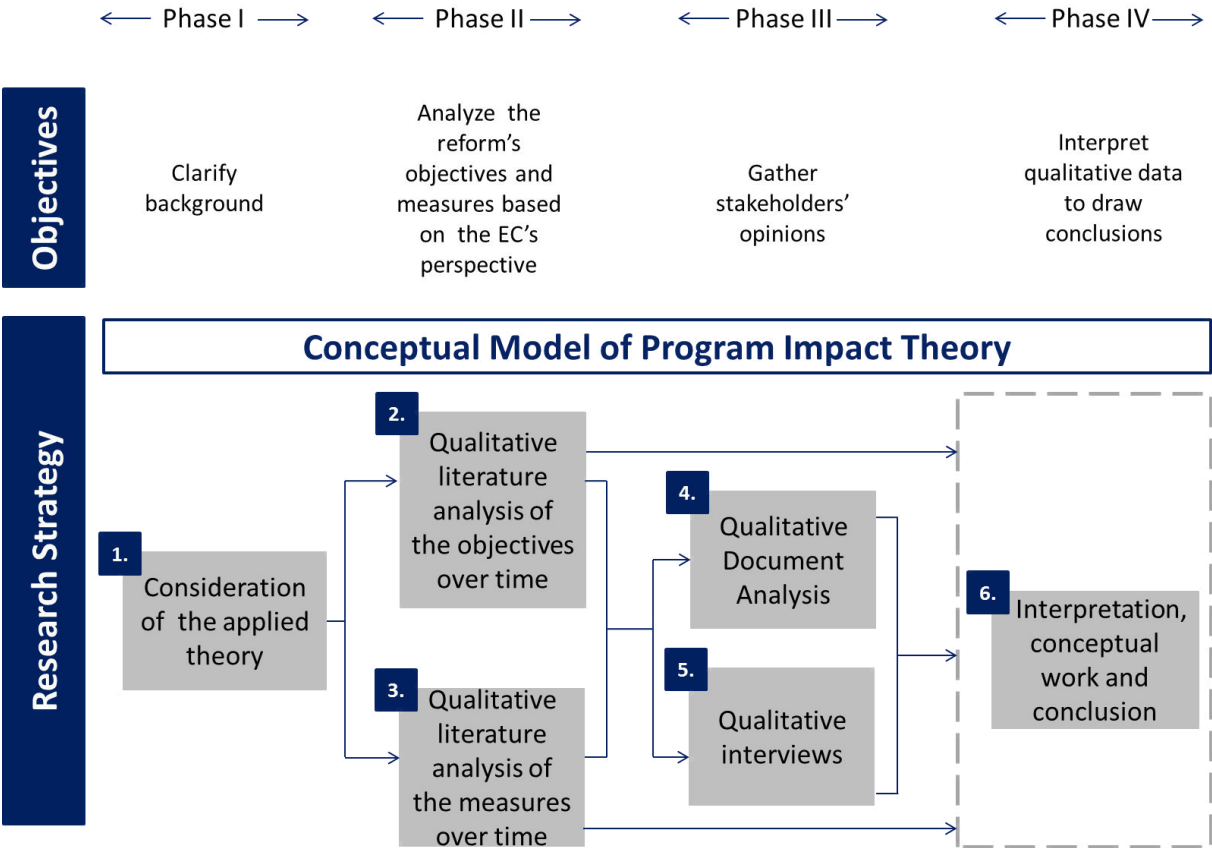


Figure 3.1 - Overview of Research Strategy (Own Representation)

3.3 Data Collection Method

Following the previous arguments, the authors of this paper have decided to apply a qualitative research design consisting of two different data collection methods. Firstly, a qualitative analysis of texts and documents was conducted which forms the background to the investigations and the foundation for the analytical framework. Furthermore, the document analysis provides relevant information for the evaluations of the intervening processes. Secondly, qualitative interviews were realized in order to support the findings gained by the qualitative examination of documents. Moreover, the interviews are necessary in order to identify the connections between the measures and their intended objectives or the missing of these connections. This two-fold approach represents a suitable research method for program impact theories (Rogers et al., 2000).

3.3.1 Qualitative Document Collection

The program impact theory requires a two-step approach to gather information from texts and documents. First, it is necessary to collect data in regard to the EC's presumptions of how the program should work and of how to reach the goals which forms the foundation of the analysis (Rossi, Freeman & Lipsey, 2004). Therefore, chapter four identifies the objectives and measures of the audit reform by examining the development of the reform. For this purpose, three occurrences and their communication are analyzed because they are crucial within the reform's development. These are the 2010 Green Paper on "Audit Policy: Lessons from the Crisis", the Commission proposals of the directive and the regulation as well as the final Directive 2014/56/EU and the Regulation 537/2014. The identified measures are then connected to the EC's objectives by following the reasoning provided by the EC in the Directive 2014/56/EU, the Regulation 537/2014 and in the EC's Memo which was published on 16th June 2014, shortly after the adoption of the audit reform by the European Parliament (EC, 2014b). These links "constitute the means by which the program expects to bring about its intended effects" (Rossi, Freeman & Lipsey, 2004, p.100).

The second step of the document data collection consists of gathering input from the major stakeholders identified in the following in order to contrast their opinions to the EC's assumptions of how the program is expected to work. In order to assure the "authenticity", "credibility, "representativeness" and "meaning" of the data (Bryman and Bell, 2007, p.555),

the units of analysis for the second step of document collection have to conform to the following four criteria: type of actor, document category, time frame and keywords.

The first criterion, namely type of actors, was deduced from the program impact theory since major stakeholders and their conflicting perspectives should be considered (Rossi, Freeman & Lipsey, 2004). In order to address the first criteria, the key actors in regard to the audit reform were identified using the model of Samsonova-Taddei and Humphrey (2014) and applying it to Germany (Appendix A). Since the study is placed in a German context, the focus lies on the German parties involved, and only the EC was considered on EU level (Samsonova-Taddei & Humphrey, 2014). From a German angle the Ministry of Economy and Energy (BMWi), the Ministry of Justice (BMJV), the IDW, the WPK and the APAK form the major governmental and legislative actors (see section 5.1). The German subsidiaries of the large accounting firms namely PwC, KPMG, Deloitte and Ernst & Young, as well as the two leading mid-tier firms, namely Rödl and Partner and BDO (Lünendonk®-Liste, 2013), also play a major role in representing the professions opinion in regard to the audit reform. Since the audit reform wants to “contribute to a more dynamic audit market” (EC, 2014b), it is also relevant to consider smaller audit companies. Other actors involved in the debate are academics and the business media (Samsonova-Taddei & Humphrey, 2014; Appendix A).

The second criterion, document category, was selected in order to identify the key locations where the above-mentioned actors will publish their comments on the audit reform. Consequently, public official documents (Bryman and Bell, 2007) prepared by EU and German institutions and officials were reviewed “such as policy drafts, studies, communications, public consultation reports and stakeholder responses” (Samsonova-Taddei & Humphrey 2014, p.60). Furthermore, organizational documents of the Big Four and mid-tier companies were analyzed which are available on the official web-pages of these actors using the time frame from January 2013 to April 2015 because the trilogue between the EC, the European Parliament and the EU Member States was already in progress and is hence, captured with this time frame (FEE, 2014). Moreover, publications in German professional accounting, auditing and business media covering the issue of the audit reform were examined in order to gather information from smaller audit companies as well as from an academic point of view. The documents from professional journals were searched by using wiso, a German database of professional journals of economics and social science, for which the same time frame as stated above (2013-2015) has been applied. The academic articles were

extracted from LUBSearch with an extended time frame (2010-2015). This extension of the time span is necessary in order to capture the general academic discussions about the correlation between the measures and objectives, which was initiated with the publication of the Green Paper in 2010. The amplification is further required to increase the number of search results.

In addition, all documents selected for the qualitative analysis must mention the keywords "audit reform", "Directive 2014/56/EU" or "Regulation 537/2014", and "Germany". Furthermore, the search included the keywords of the measures and objectives identified in chapter four. This search was conducted in English and also with the German equivalences to the mentioned keywords.

Based on these criteria 123 documents were found from which 81 were used for the analysis in chapter five. Even though all 123 documents fulfill the selection criteria, 42 documents were not used for the analysis, as their content was not relevant for the study. All used sources are stated in Appendix B, and the following table represents an overview of those sources.

	German Auditing Institutions	Big Four and Mid-Tier Audit Firms	Business Media	Academics
Document Source	Respective Web Pages	Respective Web Pages	wiso	LUBSearch
Time Frame	January 2013 – April 2015	January 2013 – April 2015	January 2013 – April 2015	January 2010 – April 2015
Keywords	Obligatory: "audit reform", "Directive 2014/56/EU" or "Regulation 537/2014", and "Germany"; Variances: "rotation", "NAS", "NAS Fee-Limit", "Audit Committee", "Oversight", "Independence", "Quality", "Dynamic Audit Market", "Cross-Border Provision", "Supervision and Coordination" (English and German)			
Number of Documents used	20	12	35	14

Table 3.1 - Overview of used Documents (Own Representation)

3.3.2 Qualitative Interviews

The second data collection method, consisting of qualitative expert interviews was chosen to increase the robustness of the results derived from the qualitative document analysis. Semi-structured telephone interviews were conducted with nine experts from German government institutions, the audit profession and one academic. Explanatory expert knowledge is gathered to allow subjective interpretations from the experts in regard to the audit reform (Bogner, Littig & Menz, 2009). This leads to a systematizing expert interview as their opinion on the audit reform provides information which is only accessible in this manner (Bogner, Littig & Menz, 2009). Due to their similar course of questioning, systematizing interviews allow comparability of the retrieved data. Nevertheless, in order to receive detailed information the interviewer must be able to elaborate on his line of thought and thus, a semi-structured interview is appropriate.

Furthermore, a semi-structured interview approach was chosen because, on the one hand, this approach is more flexible (Bryman & Bell, 2007) than structured interviews, and on the other hand, the risk of leading to poor data when doing unstructured interviews is reduced (Easterby-Smith, Thorpe & Jackson, 2012). A semi-structured interview seems more appropriate since “the researcher is beginning the investigation with a fairly clear focus” (Bryman & Bell, 2007, p.479) which is the case in this study. As a consequence, better comparisons between the different statements of the interviewees are facilitated as the same topics are addressed, although in a different order. This implies that “validity and reliability depend, not upon the repeated use of the same words in each question, but upon conveying equivalence of meaning” (Denzin, 1989; in: Barriball & While, 1994). In addition, guided open interviews offer the possibility that new aspects and topics, which the researcher did not have in mind, arise naturally during the interview (Bryman & Bell, 2007). Furthermore, the complexity of the audit reform’s technologies might sometimes need further clarifications and hence, semi-structured interviews are most suitable (Barriball & While, 1994).

For the primary data collection method a purposive sampling is applied which implies that interviewees were selected in a strategic way based on the participant’s ability to contribute to the understanding of the research question due to their special knowledge in their respective field (Bryman & Bell, 2007). Therefore, the sample member, male or female, was required to work in a German audit-oriented organization with either an institutional, academic or professional audit background. Consequently, the key actors which were already identified for

the qualitative document analysis following the model of Samsonova-Taddei and Humphrey (2015) were contacted for the interviews in order to capture the various perspectives regarding the audit reform (Appendix A). Therefore, the authors searched for publications from those key actors regarding the audit reform and contacted these persons directly. Following these criteria 16 highly relevant persons were approached from which nine experts agreed to conduct an interview. These nine experts are employed by German auditing institutions, German regulators, German audit companies (Big Four, Mid-Tier and small audit companies) or work in the academic discipline (see table 3.2). Therefore, a degree of variety among the interviewees is ensured. This is crucial for applying the program impact theory as “a modest number of carefully selected stakeholder informants who are representative of significant groups or distinctly positioned relation to the program is typically sufficient to identify the principal issues” (Rossi, Freeman & Lipsey, 2004, p.94).

Of course the purposive sampling includes some bias because the participants are not selected randomly (Bryman & Bell, 2007). However, the purpose of this study requires to interview individuals who have opinions and understand this particular concept in order to gain meaningful opinions about the audit reform. The series of interviews were conducted during April/May 2015 and the interviews lasted between 15 to 50 minutes. The interview guideline which was sent to the respondents before conducting the interview is attached in Appendix C. These questions only represent a guideline for the interviews as follow-up, probing and specifying questions, as well as interpreting questions, were asked during the interviews. An example of the interpreting questions is also provided in Appendix C. The following table summarizes the characteristic of each interviewee.

Interview	Category	Position of the interviewee	Organization if permitted	Gender	Date	Duration of the interview
E1	Academic	-	-	Female	April 24 th 2015	30 min
E2	German Regulator	-	Federal Ministry for Economic Affairs and Energy (BMWi)	Female	April 24 th 2015	37 min
E3	Small audit company	CEO (Auditor)	-	Male	April 27 th 2015	35 min
E4	German Institution	Management Board	WPK	Male	April 28 th 2015	15 min
E5	Big Four	Management Board	PwC	Male	May 4 th 2015	50 min
E6	Big Four	Management Board	KPMG	Male	May 4 th 2015	40 min
E7	German Institution for Mid-Tier Audit Companies	Head of Audit Reform Working Group	Wp.net	Male	May 6 th 2015	41 min
E8	Mid-Tier Audit Company	Auditor	BDO*	Female	May 7 th 2015	40 min
E9	German Regulator	Head of Administration	APAK	Male	May 7 th 2015	42 min

Table 3.2 - Interview Respondents (Own Representation) *personal opinion, no generalization for organization

Moreover, ethical aspects have to be considered when conducting interviews as they deal with sensitive information. Therefore, the ethical principles of Bryman and Bell (2007) are taken into account for the interviews as well as for the treatment of the received information. Thus, the research purpose was clearly communicated to the interviewees. Furthermore, the respondents were asked for permission to record the interview and, where applicable, the transcribed interview was sent to the interviewee for approval in order to transparently address the use of the data. In order to respect the privacy of the respondents, the interviewees are given the possibility to anonymize their identity completely. From the nine interviewees, two asked for full anonymization.

3.4 Data Analysis

After selecting the relevant sources, a suitable strategy for the data analysis was selected. For the qualitative examination of documents a content analysis approach was chosen in order “to interpret meaning from the content of text data” (Hsieh & Shannon, 2005, p.1277). As the analyzed texts are only important in regard to their opinion and valuation of the audit reform, the analysis focuses on the texts themselves. The question based content analysis offers a suitable way as it “moves from the specific to the general, so that particular instances are observed and then combined into a larger whole or general statement” (Chinn & Kramer, 1999 in: Elo & Kynga, 2008, p.109).

The data analysis for the interviews is also based on a thematic content analysis. Therefore, the interviews were transcribed if permitted and in the case where the recording was not permitted (expert 2), the written notes, which were made during the interview, were rewritten in a structured manner directly after the interview. If requested, the respondent was also granted the possibility to modify its interview transcript. The analysis of the documents, as well as the interviews, follows the approach of Meuser and Nagel (1991) where a thematic arrangement of the data is followed by a thematic comparison.

The content analysis approach requires in a first step the establishment of categories that are applied on the data. Argumentative-connected sentences were defined as the unit of analysis. A two-step approach was used to identify the categories. Firstly, a priori themes which are based on the “investigator’s prior theoretical understanding of the phenomenon under study” (Ryan & Bernard, 2003, p.88) were established within chapter four. Consequently, the thematic belonging of a passage to a measure and a corresponding objective was required for each analyzed data extract. The objectives and their corresponding measures represent the level-one categories and level-two categories, respectively. Secondly, the theme identification technique of similarities and differences (Ryan & Bernard, 2003) was applied. This implies that the researchers “begin with a line-by-line analysis, asking, what is this sentence about? And how is it similar to or different from the preceding or following statements?” (Ryan & Bernard, 2003, p.91). Afterwards, comparisons between different kind of sources were made and the researchers asked themselves: Which argument does this source add compared to the pervious source(s)? Simultaneously, the researchers also paid attention to the “degree of strength in themes” (Ryan & Bernard, 2003, p.91) as this might identify subthemes. Furthermore, linguistic connectors were carefully considered because they indicate causal

relations, or in other words intervening processes, between the measures and objectives (Rossi, Freeman & Lipsey, 2004). Following this theme-identification strategy 4 level-one categories, 22 level-two categories, 36 level-three categories, and 4 level-four categories were identified (Appendix D).

The second step of the content analysis approach is the coding process itself. The researchers decided to apply a ‘cutting and sorting’ processing technique as this technique is suitable for the analysis of textual, verbatim, and rich narrative data (Ryan & Bernard, 2003). After important text passages of the documents and transcribed interviews have been highlighted to identify “quotes or expressions that seem somehow important”, these passages were cut and sorted into the relevant “piles of things that go together” (Ryan & Bernard, 2003, p.94). This means that each investigator individually “went through the transcripts and cut all the quotes that pertained to each of the major themes” (Ryan & Bernard, 2003, p.95). This separate coding is important in the content analysis since it improves objectivity. In case of a disagreement, the authors discussed the categorization of argumentative-connected sentences till a consensus was reached. Therefore, the processing of the codes was conducted in a way that the categorized codes are mutually exclusive and collectively exhaustive, which required a constant re-reading of the documents, transcribed interviews, and written notes. The following examples illustrate how the authors applied the cutting and sorting technique in order to facilitate that the reader comprehends the coding process.

Coding Example

Level 1: Measure

Level 2: Objective

Level 3: Argumentation

Example 1 (Quick & Warming-Rasmussen, 2009, p.142)

Against expectations derived from theory, the majority of studies on the effect of the provision of non-audit advisory services (NAS) to an audit client failed to find a negative impact on independence in mind. However, prior research observed a negative effect on independence in appearance.

- User
Argument 1: NAS have no impact on independence in mind
- User
Argument 2: NAS has a negative impact on independence in appearance

Coding categorization example 1:

Level 1: Provision of NAS

Level 2: Effects on independence

Argument 1: NAS have no impact on independence in mind

Argument 2: NAS has a negative impact on independence in appearance

Example 2 (Expert 5, own translation)

It has long been prohibited to the auditor to provide all kind of services in unlimited heights to one client due to independence considerations. Enron triggered this discussion, as they sold more advisory services than audits. Since then, this debate continues with the important distinction between independence in mind and independence in appearance. Independence in mind can be managed. The auditor has to state clearly his independence to the audit committee, which then has to decide if that is reasonable and trustworthy. This has nothing to do with NAS. Nevertheless, the regulations go further and restrict the audit committee in their actions by implementing the 'Blacklist', which is beyond SEC regulations and which prohibits many services in general, without distinctions. This has implications for independence in appearance as well. The perceived independence is extremely important in this case. If the outside observer sees that we [PwC] have less audit turnover than advisory turnover from one mandate, he will question our independence.

- User
Argument 1: Independence in mind is no issue to be addressed through NAS provisions
- User
Argument 2: High NAS impacts independence in appearance negatively

Coding categorization example 2:

Level 1: Provision of NAS

Level 2: Effects on independence

Argument 1: Independence NAS have no impact on independence in mind

Argument 2: High NAS impacts independence in appearance negatively

Analysis

Quick and Warming-Rasmussen (2009) and expert 5 agree that NAS have no effect on independence in mind. Nevertheless, both sources see a negative correlation between NAS and independence in appearance, hence confirm the intervening process '2A'.

3.5 Methodological Limitations

According to Mayer (2009) quality criteria are needed to verify the applied methodology. Validity and reliability are crucial criteria to assess the quality of quantitative studies (Bryman and Bell, 2007). Lincoln and Guba (1985) provide four different criteria to analyze the validity and reliability of qualitative research.

The first criterion, namely credibility, examines how trustworthy the interpretations of the social reality made by the authors are (Bryman and Bell, 2007). To increase the credibility of the study the interviews were recorded and transcribed, if the interviewee declared their agreement on the recording. Furthermore, the credibility is ensured by a reflexive documentation (Flick, 1995) of the coding process. The credibility is further enhanced as all opinions of major actors (which are pointed out by Samsonova-Taddei and Humphrey, 2015) in the German auditing environment are represented in this study. Moreover, the fact that some interviewees are board members of the Big Four or have key positions in the German regulator body and auditing institutions, contributes to the credibility.

According to Lincoln and Guba (1985) transferability is the second criterion and refers to the likelihood to generalize the research findings (Bryman and Bell, 2007). Even though generalizations might sometimes be possible (Easterby-Smith, Thorpe & Jackson, 2012), the possibility to generalize based on this study are very limited since this paper is “oriented to the contextual uniqueness” (Bryman and Bell, p.413) of Germany and relatively few interviews were conducted.

The third criterion is dependability which “means the degree to which a study can be replicated” (Bryman and Bell, 2007, p.410). The dynamic of the context and the impossibility to “freeze a social setting and the circumstances” (Bryman and Bell, 2007, p.410) of a study may complicate the possibility of replication. Nevertheless, dependability can be increased by a detailed description of the whole research process, including the decisions made by the researchers throughout this study. Consequently, other researchers can reconstruct and follow the argumentation of this paper.

Confirmability is another criterion since qualitative research tends to be very subjective due to the impossibility “to control their pace, progress and end points” (Easterby-Smith, Thorpe and Jackson, 2012, p.28). Furthermore, the researcher him- or herself by interacting with the interviewee (Bryman and Bell, 2007) and by establishing trust with the respondent (Saunders,

Lewis & Thornhill, 2009) influences the outcome. Hence, it is impossible to act objectively since implicit behaviors of the researcher might already lead to subjectivity. To increase the confirmability to an appropriate level, an interview guide was established and sent to the interviewees prior to the realization of the interviews, which shows that the researchers “have acted in good faith” (Bryman & Bell, 2007, p.414).

Furthermore, the applied conceptual model of the program impact theory is a visualization of the theory’s claims of causalities. Nevertheless, the visualization in this paper is the author’s interpretation of the causalities based on extensive research on the program impact theory and the EC’s claims. Due to the application of a properly designed model the analysis might be subjective since proper classifications have been made. Classifications include the possibility to oversimplify as there is a risk of making static and deterministic claims, even though, the classifications might be ambiguous, and other researchers would classify differently. However, the authors tried to be most objectively by relying on appropriate sources and making the process of evaluation reasonable.

4 Description of the Case

The case of this paper's analysis is set out by the EU audit reform with its two legislative instruments, namely the Directive 2014/56/EU and the Regulation 537/2014. "A regulation is a binding legislative act [that] ... must be applied in its entirety across the EU", whereas "a directive is a legislative act that sets out a goal that all EU countries must achieve" (EU, 2015, Online). Within these instruments Member State options are common. The usage of proposed options, both, of the regulation and the directive, cause differences in the application of the audit reform among Europe. In order to incorporate the measures and objectives of the audit reform into the analytical framework in the end of this chapter, section 4.1 and 4.2 will shed light on the development of those starting with the issue of the Green Paper in 2010 until the final audit reform in 2014. This description of the case is necessary to facilitate an in-depth discussion of the research question in chapter five.

4.1 Development of Objectives: From the Green Paper to the Final Audit Reform

For the identification of the objectives only information from the EC's official website for the 'Reform of the Audit Market' was used since it is important to refer to the original source to increase the credibility and validity of data. Figure 4.1 facilitates an overview of the occurrences referred to in this paper.

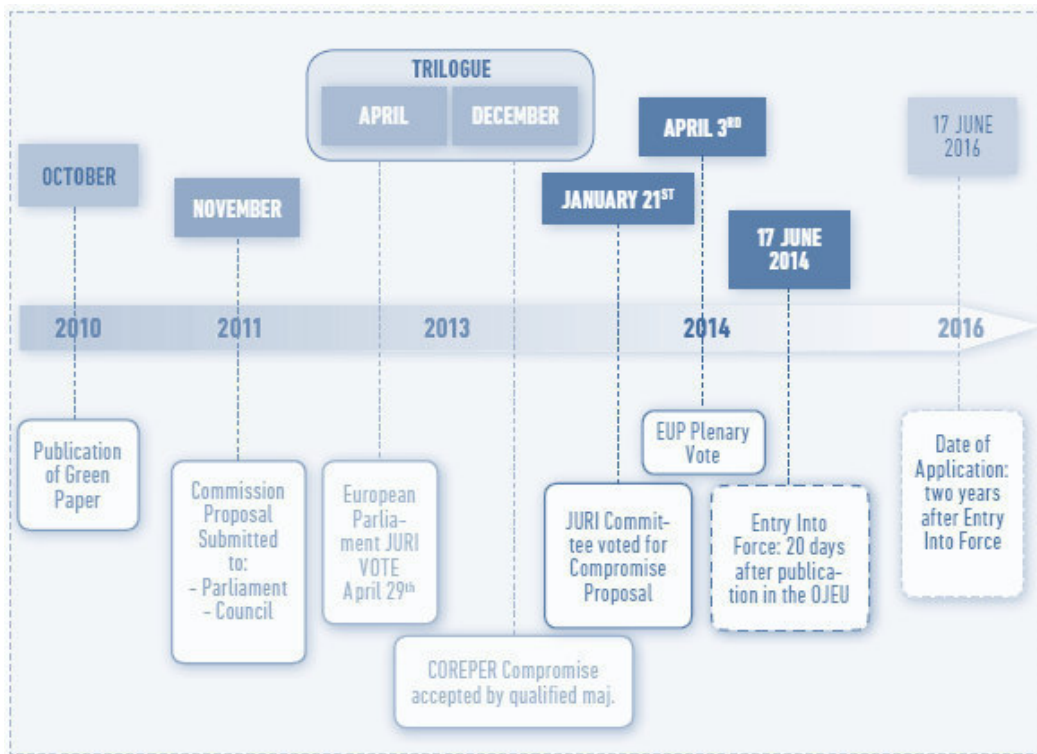


Figure 4.1 - Key Dates in the Legislative Process (FEE, 2014, p.59)

In order to mirror the development of the objectives from the Green Paper to the final audit reform, the data collection was limited to three major occurrences using the EC’s statements and regulations regarding these three events. Only EC’s statements are considered in the development of the objectives because the EC was the initiator of the audit reform. Since the reform’s initiative started in 2010 with the Commission’s Green Paper on “Audit Policy: Lessons from the Crisis”, the Green Paper is the first source to be analyzed. The 2010 Green Paper was followed by a public consultation process where almost 700 responses were received resulting in the “presentation of two Commission proposals in November 2011” (EC, 2014b), which represent the second event to be considered. The data of these two sources are then compared to the final agreed versions of the Regulation 537/2014 and the Directive 2014/56/EU which entered into force in June 2014. Table 4.1 represents the objectives’ comparison of these three major sources in order to draw conclusion about the development of the audit reform’s objectives.

To clarify again, the influences of several stakeholders which have caused several changes in the reform’s objectives are not examined in this paper since this discussion does not contribute to the paper’s research aim.

	Green Paper 2010	European Commission 30 November 2011	European Commission 16 June 2014	Interpretation
1	"Determining whether there are possible ways to lower any gap between what investors expect from an auditor and what the auditor actually delivers, and <u>whether the role of the auditor should be revisited</u> " (EC, 2010b)	"clarify and define more precisely the role of the auditor" (EC, 2011)	"Further clarify the role of the statutory auditor" (EC, 2014b)	From the reform's initiative to the proposals and to the final version only minor terminology changes have taken place throughout the development of this particular objective.
2	"Exploring possible ways to <u>improve the auditors' communication to stakeholders and regulators</u> on what work they have carried out and what they have 'discovered' during their audit" (EC, 2010b)			Is not stated anymore explicitly in the 2011 proposals and the final 2014 versions. However, this objective is addressed indirectly for example by the enhanced role of the supervisory board and the audit committee which will become visible in section 4.3 when the development of the measures is analyzed.
3	"Examining whether there are <u>conflicts of interest</u> in the current system e.g. when a firm both audits a company's results and offers it consultancy services; if so, what would be the appropriate manner to eliminate such intrinsic conflicts of interest so as to ensure complete auditor independence" (EC, 2010b)	"reinforce the independence and professional scepticism of the auditor" (EC, 2011)	"Reinforce the independence and the professional scepticism of the statutory auditor" (EC, 2014b)	In 2014 this ambitious objective has been specified with the result that it refers now only to statutory auditors. Hence, over time minor terminology changes have taken place.
4	"Ensuring <u>effective and independent supervision</u> throughout the EU" (EC, 2010b)	"improve the supervision of auditors" (EC, 2011)	"Improve the supervision of statutory auditors and the coordination of audit supervision by competent authorities in the EU" (EC, 2014b).	The final versions further add "coordination of audit supervision by competent authorities in the EU" (EC, 2014b). As a consequence, minor terminology changes have taken place which lead to an extension of this particular objective.
5	"Identifying if the current system entails any systemic, too big to fail risks because of the <u>concentration in the audit market</u> . What impact would the failure of one of the big audit firms have on the rest of the financial system? How could such accumulation of such risks be addressed?" (EC, 2010b)	"make the top end of the audit market more dynamic" (EC, 2011)	"Contribute to a more dynamic audit market in the EU" (EC, 2014b).	Even though the final reform still aims to dynamize the audit market in the EU, the sub-aims (e.g. contingency plan for big audit companies) asked for in the Green Paper's questions are not considered in the final reform's objective anymore.
6	" <u>Improving the internal market</u> of audit by ensuring further mobility for audit professionals and firms within the EU, possibly by creating a European Passport in this area" (EC, 2010b)	"facilitate the cross-border provision of statutory audit services" (EC, 2011)	"Facilitate the cross-border provision of statutory audit services in the EU" (EC, 2014b).	The scope of the Green Paper's sixth objective includes the more specific objective of the creation of a European passport for auditors, whereas the proposal as well as the final version are more general. Consequently, the scope of this objective is changed throughout its development.
7	"Addressing the proportionality of the application of regulatory requirements to <u>reduce administrative burden for SMEs</u> where possible." (EC, 2010b)	"reduce unnecessary burdens for SMEs" (EC, 2011)	-	The Green Paper's seventh objective to "reduce administrative burden for SME's" (EC, 2010b) was still addressed in the proposal but abandoned from the final version.

Table 4.1- Comparison of the Audit Reform's Objectives (Own Representation)

The analysis of the 2010 Green Paper shows that seven different objectives exist in this stage of the audit reform. Generally the analysis of the objectives' development reveals that the

Green Paper states the objectives more hypothetically using questions and “considerations for public consultation” (EC, 2010b). Nevertheless, posing questions instead of clear objectives seems to be normal in the early stage of reform development since the opinion of stakeholders shall be gathered. The five objectives which are finally adopted in June 2014 present only minor changes in terminology or scope when comparing between the initial intentions of the Green Paper, the proposal, and the final version. These changes in terminology or scope lead either to specifications (e.g. objective three) or to generalizations (e.g. objective four, objective five and objective six) of the Green Paper’s objective compared to the final version of the audit reform in 2014.

One of the Green Paper’s objectives, namely “improve the auditors’ communication to stakeholders and regulators” (EC, 2010b, Online), is not noted explicitly in the 2011 proposals and the final 2014 versions. However, this objective is addressed indirectly, i.e. by the enhanced role of the audit committee which will become visible in section 4.2 where the development of the measures is analyzed. In contrast, the Green Paper’s seventh objective to “reduce administrative burden for SME’s” (EC, 2010b) is still addressed in the proposal but it is abandoned in the final version and is transferred to the Directive 2013/34/EU. Overall, it seems that the parties involved in the process did not have severe problems to come to an agreement regarding the objectives because only minor changes were made between the proposal’s objectives and the final reform’s objectives. Nevertheless, this is not surprising as the objectives are more general and do not directly influence the stakeholders which makes it easier to agree on them compared to the agreement on specific measures. This is also pointed out by Rose and Miller (1992) as stakeholders mainly get involved after the justifications for the program’s objectives have been announced.

4.2 Development of Measures: From the Green Paper to the Final Audit Reform

After identifying the objectives and their development, this section examines the development of the measures from their initial consideration in the Green Paper to the claims in the 2011 proposal to the final agreed audit reform in order to identify major changes. This is necessary in order to critically reflect on the measures as an in-depth knowledge of which measures were aimed at and which measures were finally implemented contributes to the discussion in chapter five. The identification of changes within the measures facilitates a first insight of whether they are in accordance with the objectives’ modifications. The data collection is

again based on the three events mentioned above using the EC's official statements, respective regulations and directives. In the following only the major findings of this analysis are represented. However, Appendix E contains a tabular comparison of the measures over time which was used to identify the major changes. This implies that the list is not exhaustive. For example detailed sub-items (e.g. transparency report in Article 13 of the Regulation (EU) 537/2014) and some topics (e.g. record keeping in Article 15 of the Regulation (EU) 537/2014) were not considered, because they are not contributing to the research question. The analysis of the measures' development points to three classifications of accepted measures.

4.2.1 Measures Accepted with Minor or No Changes

The first category includes measures that are accepted with minor or no changes from the initial considerations in the Green Paper to the final audit reform. Hence, these measures cause changes in the audit market compared to the pre-audit reform. Those measures are the suggested compliance with the International Standards on Auditing (ISA), the prohibition of contractual clauses and quality certifications for audit firms as well as auditors (Appendix E).

Furthermore, the amended directive and regulation require a restructuring of public oversight of auditors. Nevertheless, the measures to enhance oversight at national and European level have also undergone minor changes. On EU-level, the coordination between the Member States' authorities is not designated to the European Securities and Markets Authority (ESMA) as suggested by the 2011 proposal regulation and proposal directive (EC Proposal Regulation, 2011; EC Proposal Directive, 2011). Instead, cooperation will be organized by the Committee of European Auditing Oversight Bodies (CEAOB) "which should be composed of high-level representatives of the competent authorities" (Regulation (EU) 537/2014, L158/82; Directive 2014/56/EU). However, ESMA is in charge of "the cooperation between Member States and third countries in the field of public oversight of PIEs" (EC, 2014b, Online). Consequently, the CEOB with the support of ESMA, "take(s) over the tasks of the existing European Group of Auditor Oversight Bodies (EGAOB)" (EC, 2014b, Online).

On the national level, the audit reform further requires that "each Member State should designate a single competent authority to bear ultimate responsibility for the audit public oversight system" (EC, 2014b, Online). Moreover, in order to increase the power of these authorities, the sanction regime has been strengthened compared to the Directive 2006/43/EC.

However, the stricter sanctions which are granted to the national oversight bodies are not mentioned in the regulation as suggested by the 2011 proposal but instead in the 2014 directive (EC Proposal Regulation, 2011; Directive 2014/56/EU). This implies that the sanctions conferred to the oversight bodies do not only apply to PIEs (EC, 2014b).

4.2.2 Measures Accepted with Changes

The second category characterizes measures that are accepted with changes to the scope from the initial considerations in the Green Paper to the final audit reform. As a consequence, these measures cause changes compared to the pre-reform situation, but not in the same way as initially proposed by the Green Paper or the 2011 proposals. The identification of those measures that are now less strict in the final version than they were initially intended, is especially relevant as it might point out whether or not measures that were weakened might not be in accordance with the objectives due to their change. Therefore, the development of the measures included in this category is explained in more detail.

Compared to the Directive 2006/43/EC the most significant change of the audit reform is the new regulation of mandatory external rotation of PIEs (EC, 2011). Although the audit reform requires mandatory firm rotation of statutory audits of PIEs, the finally agreed rotation period is quite far from what has initially been suggested in the 2011 proposal. The proposal's regulation suggests a mandatory rotation of audit companies after a maximum of six years which might be extended to nine years in case of joint audits and a cooling off period of four years (EC Proposal Regulation, 2011). Contrary, the 2014 regulation allows a maximum rotation period of ten years which can be extended by Member States to 20 years when a public tendering process for the statutory audit is conducted and to 24 years when joint audits are conducted requiring in all cases a cooling off period of four years (Regulation (EU) 537/2014). Consequently, the maximum rotation period has been extended drastically comparing the 2011 proposal to the final audit regulation which implies that rotation takes place less often under the final version than rotations would have occurred under the proposal.

Furthermore, the proposal and the final audit reform suggest transition periods for the rotation of "long-lasting existing engagements between PIEs and statutory auditors" (EC, 2014b, Online; EC Proposal Regulation, 2011; Regulation (EU) 537/2014). Nevertheless, the transition periods are longer in the 2014 regulation than initially proposed in 2011. For instance, the proposal regulation of 2011 suggests a transition period of "3 years: if the

auditor has been providing services to the audited entity for a consecutive period between 21 and 50 years;... 4 years: if the auditor has been providing services to the audited entity for a consecutive period between 11 and 20 years; ... 5 years: if the auditor has been providing services to the audited entity for a consecutive period not exceeding 10 years” (EC Proposal Regulation, 2011, p. 83). In contrast, the Regulation (EU) 537/2014 proposes the following streamlined transition periods:

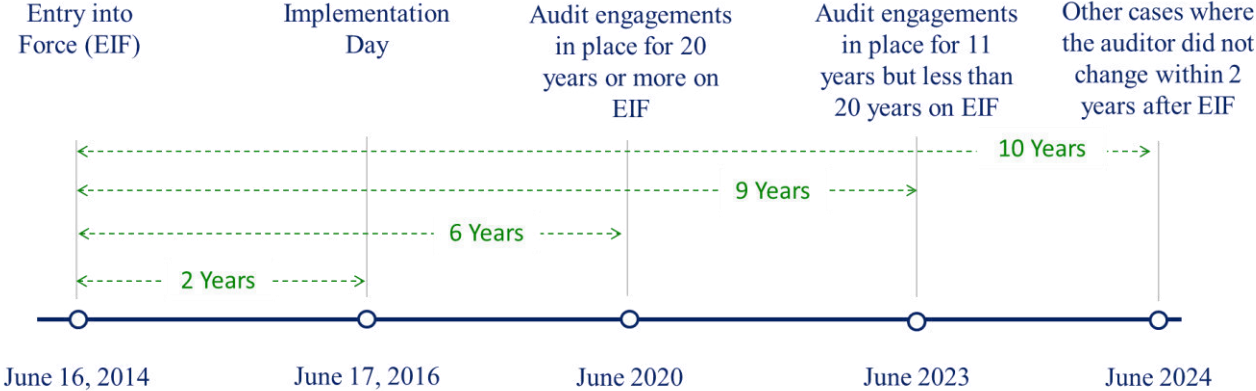


Figure 4.2 - Transition Periods for Mandatory Rotation of PIEs (Own Representation, according to Regulation (EU) 537/2014)

The 2014 regulation does not contain a transition period for engagements that lasted less than 11 years on June 16th 2014 (Regulation (EU) 537/2014). The comparison reveals that the 2014 regulation has extended the transition periods for eleven or more years to twice as much as in the 2011 proposal, but does not provide a transition period for engagements shorter than 11 years on June 16, 2014 (EC Proposal Regulation, 2011; Regulation (EU) 537/2014). The impact of these transition periods, as well as the mandatory external rotation, will be discussed in section 5.2.1.

Another measure that belongs to the second category is the prohibition of certain non-audit services to PIEs and the limitation of fees for non-audit services to PIEs as well as total fees received from one PIE client. The Green Paper as well as the 2011 proposal regulation suggest the establishment of pure audit firms, which result in “a complete ban on the provision of non-audit services (NAS) by the large audit firms” (EC Proposal Regulation, 2011, p. 6). Only several related financial audit services might be allowed under the proposal regulation 2011 (full list see Appendix E), such as “audit or review of interim financial statements; ... providing assurance on corporate governance statements; ... providing certification on compliance with tax requirements where such attestation is required by national law” (EC Proposal Regulation, 2011, p. 30). Nevertheless, the Regulation (EU)

537/2014 does not mention the term pure audit firm anymore and has reduced the black list of prohibited NAS significantly compared to the 2011 proposal (Appendix E). This is, on the one hand, caused by the permission that under certain circumstances Member States may allow services included on the blacklist of the Regulation (EU) 537/2014. On the other hand, some services, such as due diligence or the establishment of comfort letters for investors, have been allowed only with approval of the competent authority under the proposal regulation but are allowed without approval in the 2014 final regulation (EC Proposal Regulation, 2011; Regulation (EU) 537/2014).

Furthermore, the new audit reform also introduces fee limits for audit services which were already suggested by the Green Paper. However, since the proposal regulation requires pure audit firms, the requirements for fee limits on NAS, related financial audit services and total fees differ from the requirements of the 2014 regulation. Besides the stricter prohibition of NAS in the 2011 proposal, the limitations on the proportion of NAS to total fees have been stricter in the 2011 proposal regulation compared to the 2014 regulation. Whereas the proposal suggests that the “fees for the provision of related financial audit services to the audited entity should be limited to 10 % of the audit fees paid by that entity” (EC Proposal Regulation, 2011, p. 30), the 2014 regulation allows that the not prohibited NAS can amount to “70 % of the average of the fees paid in the last three consecutive financial years for the statutory audit(s)” (Regulation (EU) 537/2014, p. L158/85). Consequently, the fee limit for allowed NAS has been extended.

In addition, the total fees received from one audit client are regulated by the new audit reform. The EC proposal regulation requires that the auditor informs the audit committee if the total fees “received by an auditor from a PIE reach more than 20 % or, for two consecutive years, more than 15 % of the total annual fees” (EC Proposal Regulation, 2011). In addition, if the percentage of total annual fees from one PIE reach more than 15% for two consecutive years the competent authorities have to be informed which then “decide if the audit can be continued for not more than 2 years” (EC Proposal Regulation, 2011, p.29). The final regulation follows the stricter limit of 15% of total fees received by an auditor from a PIE but instead of calculating them on the basis of two consecutive years (EC Proposal Regulation, 2011); the 2014 regulation allows the 15% for three consecutive years. In addition, the audit committee has to be informed if these 15% are exceeded but there is no obligation to inform

the competent authorities (Regulation (EU) 537/2014). Consequently, the requirements on the total fee limit have been weakened throughout the development of this measure.

Furthermore, the scope of the transparency report of audit companies has been weakened throughout this measure's development. Even though the 2014 regulation accepts most of the proposed changes, the proposal's suggestion to submit a statement on the corporate governance of the audit company and to disclose all entities from which the "audit firm receives more than 5% of its annual revenues" (EC Proposal Regulation, 2011, p. 49) are not included in the final version (Regulation (EU) 537/2014). Moreover, the simplifications for SMEs in regard to audits are accepted only for small companies and not for medium size companies (Regulation (EU) 537/2014). As a consequence, the scope of this measure has also been reduced throughout its evolution.

On the contrary to these diminutions, the requirements regarding the reinforced role of the audit committee of PIEs have been further strengthened throughout the process of establishing the audit reform. Even though the requirements on the composition have been weakened from the proposal to the final audit reform, the direct responsibility in the appointment of a new statutory auditor or audit company as well as the demands for an enhanced internal communication have increased.

While the proposal directive of 2011 states that the audit committee of PIEs must have at least two independent members "and at least one member of the audit committee shall have competence in auditing and another member in accounting and/or auditing" (EC Proposal Regulation, 2011, p. 8), the Directive 2014/56/EU requires only that one member must have competencies in accounting or auditing and there is no specific requirement on the independence of the audit committee (Directive 2014/56/EU). Furthermore, it becomes visible that the enhanced requirements on the audit committee which were stated in the 2011 proposal regulation have been transferred to the directive.

Although the external communication is extended compared to the 2006 directive, the improvements are not as strong as initially demanded by the EC (Appendix E). When comparing the proposal and the final agreed version it becomes visible that some requirements of the public audit report have been transferred to the additional report for the audit committee of PIEs (EC Proposal Regulation, 2011; Regulation (EU) 537/2014). These are for example the "methodology used, especially how much of the balance sheet has been

directly verified and how much has been based on system and compliance testing, [and] the levels of materiality” (EC Proposal Regulation, 2011, p.7). The direct responsibility of the audit committee of PIEs for the mandatory tendering of new auditors or audit companies, which was already suggested by the Green Paper, also contributes to the enhanced role of the audit committee.

4.2.3 Measures not Accepted and Conclusion

The third category entails measures that are deleted completely from the initial considerations in the Green Paper to the final audit reform. The analysis of the development of the measures comes to the conclusion that the following measures have been deleted from the Green Paper’s suggestions to the final audit reform in 2014: need for substantive verification, need for independent assurance of CSR report, examination of the financial outlook of the auditee by the auditor, third party appointment of the audit company, code of governance for audit firms, new ownership rules for audit firms, mandatory joint audits, contingency plan for audit companies (see Appendix E).

To conclude, the analysis of the development of the reform’s measures reveals that a major weakening of the measures has taken place. The possible impact of some measures is reduced by softening the requirements whereas other measures have been removed from the 2011 proposals to the final audit reform. This further raises the question in which way the reform’s measures, which have undergone a process of change, are still in line with its intended objective, which have been modified only slightly. Furthermore, the analysis indicates that the process to establish an agreement on the measures seems to be more difficult since major changes have occurred throughout the whole development.

4.3 Implementing Final Measures and Objectives into the Analytical Framework

After having identified the most important measures and objectives in the previous sections, this section incorporates the EC’s presumptions – of how the program should work and of how it should reach its goals – into the analytical framework of section 2.2, because this is the program impact theory’s point of departure of evaluation (Rossi, Freeman & Lipsey, 2004). The intervening process of the analytical framework presented in section 2.2 are the “connections presumed between its [the program’s] various activities and functions and the social benefits it is intended to produce” (Rossi, Freeman & Lipsey, 2004, p. 98) which in this

particular case is the EC's justification of how the impact of the applied measures can contribute to the desired objectives.

In order to determine the EC's justifications in the analytical framework, it is therefore important to consider the official objectives identified by the EC (EC, 2014b, Online):

The reform aims to improve audit quality and restore investor confidence in financial information, an essential ingredient for future investment and economic growth... The main objectives of the reform are to:

- 1. Further clarify the role of the statutory auditor*
- 2. Reinforce the independence and the professional scepticism [sic] of the statutory auditor*
- 3. Facilitate the cross-border provision of statutory audit services in the EU*
- 4. Contribute to a more dynamic audit market in the EU*
- 5. Improve the supervision of statutory auditors and the coordination of audit supervision by competent authorities in the EU*

Unlike the last four objectives, the first objective is very unspecific and hence more explanation is needed. What does the EC understand under “clarify the role of statutory auditor” (EC, 2014b, Online)? According to former commissioner Barnier, a clarified societal role includes “increased audit quality to reduce the ‘expectation gap’ ... enhanced transparency ... [and] better accountability” (EC, 2013, Online). Since accountability and transparency are intrinsically linked to audit quality, and the “primary objective of the reform is to increase the quality of statutory audit” (EC, 2014b, Online), the analytical framework provided below will analyze audit quality as a proxy for a clarified societal role.

Apart from the objectives, the analytical framework considers four specific measures in order to evaluate the program. These four measures were selected since Velte (2014a) and Quick and Sattler (2011) argue that these four measures are the most influential ones. These are ‘mandatory external rotation of audit firms’; the ‘prohibition of specific NAS’, including the ‘NAS fee-limits’; the ‘enhanced role of the audit committee’ which involves ‘mandatory public tendering’ and ‘increased internal communication’ (e.g. long form audit report); as well as ‘enhancement of oversight at national and European level’.

The above identified measures are then linked to the EC’s objectives by following the argumentations and assumptions provided by the EC in the Directive 2014/56/EU, the Regulation (EU) 537/2014 and the EC’s Memo which was published shortly after the adoption through the European Parliament of the audit reform (EC, 2014b). These connections “constitute the means by which the program expects to bring about its intended effects” (Rossi, Freeman & Lipsey, 2004, p. 100) and are represented in figure 4.3.

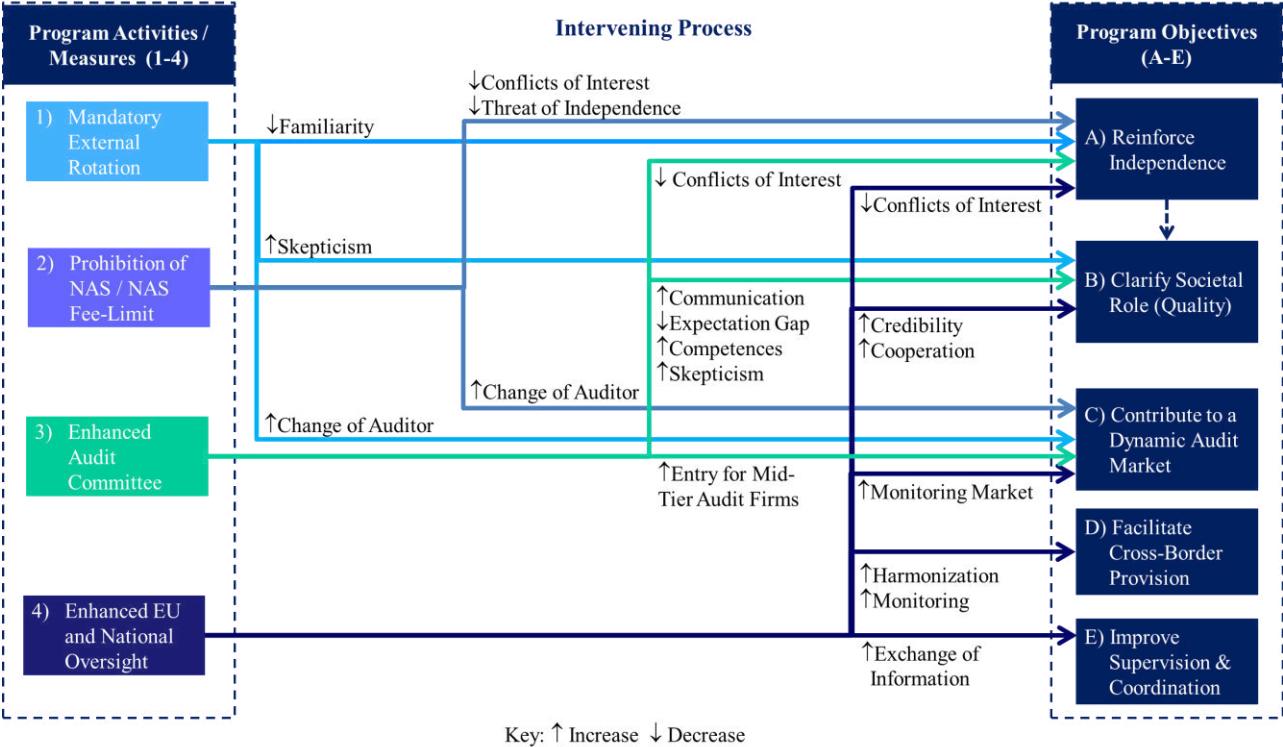


Figure 4.3 - Analytical Framework Applied to EC’s Assumptions (Own Representation)

Hereinafter, the intervening processes between the measures and the objectives are explained by referring to the EC’s argumentation. Appendix F contains the sources used for each intervening process in figure 4.3 on which the study is based. Each intervening process can be identified by using numerical digits for the program activity and an alphabetical character for the program objective. The intervening processes connecting measures and objectives represent the criteria of evaluation applied for this study’s analytical framework because identifying the relevant criteria is necessary to make an assessment in chapter five (Rossi, Freeman & Lipsey, 2004).

One of the most relevant measures is the mandatory external rotation of auditors of PIEs as “mandatory rotation is the 'sine qua non' of the whole package of proposals as the other measures in isolation will not be sufficient to reinforce independence and professional

scepticism [sic]" (EC, 2011, Online). According to the Regulation 537/2014 long-lasting professional relationships may cause an over-familiarity between the auditor and the auditee (Regulation (EU) 537/2014). As a result, the EC argues that mandatory external rotation of audit firms reduces this familiarity threat (Regulation (EU) 537/2014). Following the EC's argumentation, the reduction of the familiarity threat "reinforces independence" (Regulation (EU) 537/2014, p. L158/81). This argumentation represents the EC's justification of how the impacts of the applied measures 'mandatory external rotation' can contribute to the desired objective of 'reinforced independence' and explains the connection '1A' made between (1) 'mandatory external rotation' and (A) 'reinforced independence' in figure 4.3.

Furthermore, long lasting relationships between the auditor and the auditee can have negative impacts on the professional skepticism of the auditor (EC, 2014b). Therefore, the EC argues that mandatory rotation will reduce "the risks of carrying over repeated inaccuracies, and encourage fresh thinking" which "will hence contribute to a better audit quality" (EC, 2014b, Online). This argument is represented in figure 4.3 by the connection '1B' between (1) 'mandatory external rotation' and (B) 'clarified societal role'. Nevertheless, it is argued that reinforced independence simultaneously increases audit quality, which justifies the connection 'AB' of figure 4.3 (EC, 2014b). In addition, the EC reasons that mandatory rotation requires that another audit firm conducts the audit which benefits mid-tier audit firms "as new market opportunities emerge ... [and] should make the market more dynamic" (EC, 2014b, Online), which represents the intervening process of '1C'.

Another measure that is expected to have a high impact is the prohibition of certain NAS and the cap on fees for NAS from one audited entity. The EC argues that auditors shall "perform their primary 'societal' role: statutory audit" (EC, 2014b, Online). However, when the auditor provides additional NAS to the auditee, the independence of the auditor is threatened (Regulation (EU) 537/2014) and the possibility for conflicts of interest is increased (EC, 2014b, Online). These claims represent the EC's justifications regarding the prohibition of certain NAS when simultaneously conducting an audit and therefore, the connection '2A' between (2) 'prohibition of NAS' and (A) 'reinforced independence' is established in figure 4.3. Furthermore, the EC reasons that "the prohibition of certain non-audit services to audit clients - requiring de facto that another audit firm provides these services - [is an example of measures] that should make the market more dynamic and ultimately less concentrated" (EC, 2014b, Online), which justifies the connection '2C' in figure 4.3.

Related to the prohibition of certain NAS to an audited PIE is the introduction of a cap on fees for NAS to PIEs and thus these two measures are represented together in figure 4.3. The Regulation 537/2014 states that “the structure of fees can threaten the independence of a statutory auditor or an audit firm” (Regulation (EU) 537/2014, p. L158/79). The EC further sets out that “introducing a cap on fees for non-audit services to PIEs will strengthen the independence of statutory auditors and audit firms vis-à-vis their clients” (EC, 2014b, Online). Hence, the audit reform does not provide a direct argument on how the independence is increased, but that the independence is reinforced by these measures.

The enhanced role of the audit committee is another measure that according to the European Commission reinforces independence (Directive 2014/56/EU). Additionally, “the new rules reinforce the audit committee, both in its composition (most members shall be independent; the committee as a whole shall now have competence relevant to the sector in which the audited entity is operating), and in its competences” (EC, 2014b, Online), which reinforces the independence of the audit committee. Furthermore, the audit committee is responsible for reducing and monitoring conflicts of interests which enhances the independence of the auditor (Regulation (EU) 537/2014). This argumentation justifies the connection ‘3A’.

Besides the effects of an enhanced audit committee on independence, the enhanced role of the audit committee will also increase audit quality (EC, 2014b) which justifies the establishment of the intervening process ‘3B’. By providing the audit committee “with better and more detailed information” (EC, 2014b, Online) via for instance the long form audit report, “the reform aims to help reduce the ‘expectation gap’ that often exists between the perceptions of what auditors should be delivering and what they are bound to deliver” and hence, increases audit quality (EC, 2014b, Online).

Furthermore, the new procedures to make the audit committee directly responsible for the appointment of the statutory auditor (mandatory tendering) and “the monitoring of the audit” (EC, 2014b, Online) are also “established to secure the quality of the audit” (Regulation (EU) 537/2014, p.L158/79). Additionally, according to the EC, the better “technical competences” and the increased independence of the audit committee shall contribute to a higher audit quality by strengthening professional skepticism (Directive 2014/56/EU, p. L158/200). Consequently, the additional report to the audit committee as well as other measures improve the communication between the audit committee and the statutory auditor, which enhances audit quality (Regulation (EU) 537/2014; Directive 2014/56/EU).

Moreover, the EC argues that mandatory tendering, for which the audit committee is responsible, will increase the possibilities for mid-tier audit firms to gain new clients as “new market opportunities emerge. ...that should make the market more dynamic and ultimately less concentrated” (EC, 2014b, Online). Consequently, a connection between (3) ‘enhanced audit committee’ and (C) ‘contribute to a dynamic audit market’ is made in the analytical framework.

The last measure of the analytical framework, namely enhanced EU and national oversight, appears to be the silver bullet of the EU audit reform as this measure is argued to reach all objectives. In order to enhance the oversight on the EU level, the CEAOB is established which will provide coordination for the exchange of information between the national oversight bodies of the Member States (EC, 2014b). On the Member States level oversight is enhanced through the requirement to “designate a single competent authority to bear ultimate responsibility for the audit public oversight system” (EC, 2014b, Online). This measure can be connected to independence which is the intervening process ‘4A’, as the EC states that “conflicts of interest” within audit firms or for auditors can be prevented (Regulation (EU) 537/2014, p. L 158/81). Oversight is also said to contribute to ‘clarify the societal role’ (process ‘4B’) on two levels. Firstly, on the level of the individual Member States audit market, a “quality control review” is argued to facilitate a high degree of audit quality because “it adds credibility to published financial information” (Regulation (EU) 537/2014, p. L158/81). This is said to implement a “quality assurance system” in the audit market (Directive 2014/56/EU, L158/198) which is facilitated by the power of sanctioning in order to “improve compliance” with the 2014 Regulation and Directive (Directive 2014/56/EU, L158/199). Secondly, on the EU level “cooperation between the competent authorities of the Member States” is stated as an “important contribution to ensuring high quality of statutory audit” (Regulation (EU) 537/2014, p. L158/82).

The third intended objective of this measure is to contribute to a more dynamic audit market (intervening process ‘4C’). The EC argues that competent authorities should “monitor the development of the market, particularly ... [in regard to] high market concentration” (Regulation (EU) 537/2014, L158/82) which will “promote market diversity” (EC, 2014b, Online). The EC’s fourth desired objective of enhanced EU and national oversight is to facilitate cross-border provision which is the intervening process ‘4D’. The measure of oversight is set to facilitate the harmonization of the audit market as the aim to enable

statutory auditors and audit firms to provide their services within the borders of the European Union makes such an oversight necessary to ensure high quality of audits (Directive 2014/56/EU, L158/197 & L158/200). Lastly, the intervening process '4E' shows that oversight is set to improve supervision and coordination in the audit market. The objective of supervision is already considered above and furthermore, oversight is necessary as "the interrelation of capital markets gives rise" to strong authorities, which cooperate in regard to "exchange of information or quality assurance reviews" (Regulation (EU) 537/2014, p. L158/83).

5 Analysis of the Audit Reform's Measures and their Accordance with the EC's Intended Objectives from a German Perspective

Since this paper analyzes the EU audit reform from a German market perspective, section 5.1 points out central actors of the German institutional environment in order to provide the reader with background knowledge. Afterwards the subsequent sections analyze in which way the audit reform's measures are in accordance with the EC's intended objectives, as identified in chapter four. The intervening processes which have been established in chapter four are examined from a German market perspective in order to analyze in which way they impact the objectives. As stated in chapter three, the evaluation follows the program impact theory and is based on a qualitative document analysis and interviews. Besides the intervening processes identified by the EC, other side effects which were detected during the analysis will be pointed out. At the end of each section, the findings will be implemented into the analytical framework which is based on the program impact theory. In the end of the chapter a summary of the major findings is provided.

5.1 German Institutional Environment

The EU statutory audit directive, the Handelsgesetzbuch (German Commercial Code, HGB), the Wirtschaftsprüferordnung (German Public Accountant Act, WPO), and "by-laws of the Chamber of Public Accountants" form the legal framework for auditors as well as for the German oversight bodies (Volkman, n.d.). Consequently, the new audit reform will bring about changes in the WPO, the HGB and other regulations (Bundesministerium für Wirtschaft und Energie, 2015, Online). In order to understand the consequences of the audit reform, it is important to comprehend the German institutional audit environment which sets the background for this change process.

According to article 66 of the WPO the Federal Ministry of Economics and Energy is responsible for the state supervision over the Chamber of Public Accountants (Wirtschaftsprüferkammer, WPK) and the Auditor Oversight Commission (Abschlussprüferaufsichtskommission, APAK). Consequently, the Federal Ministry of Economics and Energy controls that the WPK and the APAK fulfill their tasks in accordance with legal requirements.

The APAK, established in 2005, is an independent public oversight body with “ultimate responsibility” (APAK, 2015, Online) regarding all auditor oversight activities. Consequently, the WPK is not only subjected to state supervision of the Federal Ministry of Economics and Energy but also to public oversight executed by the APAK (European Commission, 2008). The APAK’s responsibilities include the examination of whether the WPK “fulfills its legal obligations” (APAK, 2015, Online). These are “licensing of public accountants (Wirtschaftsprüfer and vereidigte Buchprüfer), licensing of audit firms, revocation of licenses, registration of public accountants and audit firms, disciplinary oversight and external quality assurance” (IFIAR, 2014).

Furthermore, the APAK, “governed by independent non-practitioners” (European Commission, 2008, Online), “cooperates in case of cross-border oversight proceedings concerning statutory auditors with the relevant authorities abroad” (IFIAR, 2014, p.1). Therefore, the APAK is interested in international “cooperation of independent audit regulators” and “is member of the European Group of Auditors’ Oversight Bodies (EGAOB), the European Audit Inspection Group (EAIG) and the International Forum of Independent Audit Regulators (IFIAR)” (APAK, 2015, Online).

Subordinated to the APAK is the WPK which “is a corporation under public law”, membership in which is mandatory in Germany for “all Wirtschaftsprüfer [German public accountants], vereidigte Buchprüfer [German sworn auditors], Wirtschaftsprüfungsgesellschaften [German public audit firms] and Buchprüfungsgesellschaften [German firms of sworn auditors]” (Wirtschaftsprüferkammer, 2015, Online). As mentioned before, the WPK is supervised by the Federal Ministry of Economics and Energy, as well as by the APAK, which delegates tasks such as disciplinary oversight, audit examination, the adoption of professional rules or quality assurance procedures towards the WPK (Wirtschaftsprüferkammer, 2015).

Special is that the “disciplinary oversight of the German audit profession is organized into a two-tier system”, which consists of sanctions raised by the WPK and by special divisions of criminal courts (APAK, 2015, Online). This means that investigations about minor abuses of professional rules are conducted by the WPK (APAK, 2015, Online); whereas “severe violations of professional rules” are investigated by the Chief Public Prosecutor in Berlin and sanctioned by independent state courts (European Commission, 2008, Online).

Aside from these public and governmental institutions the Institut der Wirtschaftsprüfer (IDW), the German Institute of Public Auditors, plays a major role in the organization of the German auditing profession. The IDW is a private institution which “serves the interest of its members who comprise both individual Wirtschaftsprüfer [German Public Auditors] and Wirtschaftsprüfungsgesellschaften [German Public Audit firms]” (Institut der Wirtschaftsprüfer in Deutschland e.V., 2007, Online). The IDW, of which membership is voluntary, aims to preserve the interests of its members on national and international level and supports them with technical advice and sets out standards (Institut der Wirtschaftsprüfer in Deutschland e.V., 2007).

Besides the German Accounting Standards Committee, an independent standard setter (Deutsches Rechnungslegungs Standards Committee, 2015), the IDW is mainly responsible for the publications of German Generally Accepted Standards on Auditing (Institut der Wirtschaftsprüfer in Deutschland e.V., 2007). The IDW is a member of the International Federation of Accountants (IFAC), the Fédération des Experts Comptables Européens (FEE), the “International Auditing and Assurance Standards Board (IAASB), the International Accounting Education Standards Board (IAESB), the International Public Sector Accounting Standards Board (IPSASB) as well as IFAC’s Small and Medium Practices Committee (SMPC)” (Institut der Wirtschaftsprüfer in Deutschland e.V., 2007, Online). Other important accountancy associations are the Accountants Group in Germany and the Deutscher Buchprüferverband (DBV) – the German Certified Accounts Association (ICAEW, 2015).

An overview of the major German auditing institutions and the relationship between these institutions is represented in figure 5.1.

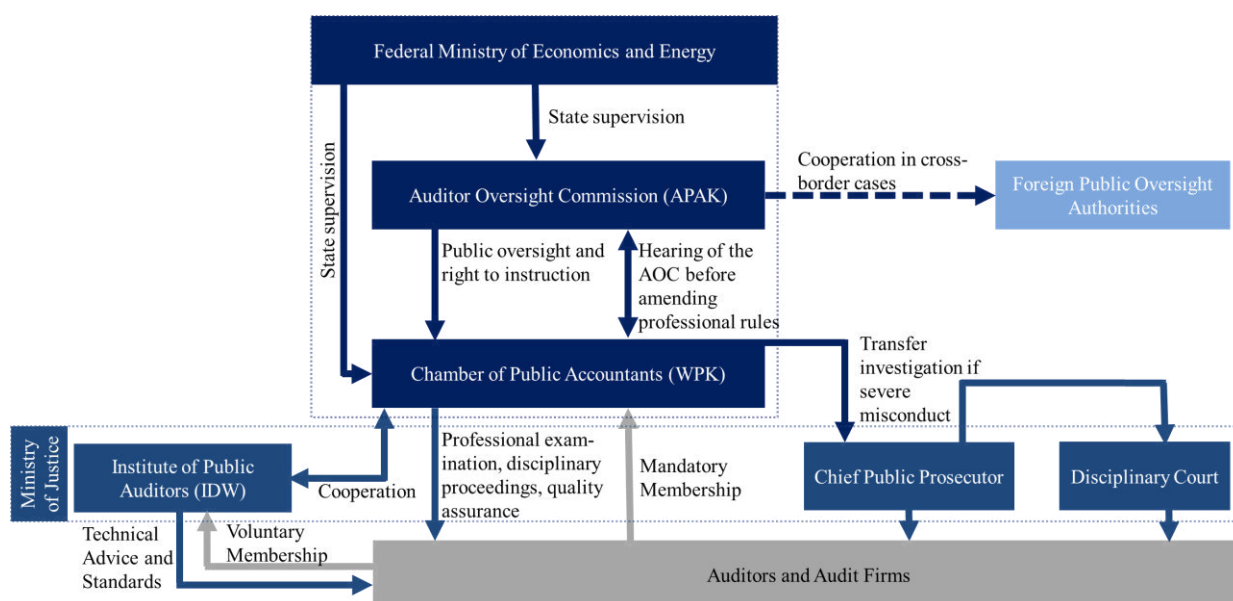


Figure 5.1 - German Auditing Institutions (Own Representation adapted from Auditor Oversight Commission, 2014)

The system of auditor oversight is separate from the accounting oversight body; however, the two systems cooperate since they exchange information in regard to possible misconducts of the “auditor’s duties” (APAK, 2015, Online). The two-tier accounting enforcement system “consist of a private body, the DPR [Deutsche Prüfstelle für Rechnungslegung], which investigates compliance of published financial reports of firms listed on a regulated market segment and ... the German securities regulator BaFin [Bundesanstalt für Finanzdienstleistungsaufsicht], which on a second level enforces disclosure of these findings to establish adverse disclosure” (Ernstberger, Hitz & Stich, 2011, p.253).

5.2 Impact of the Mandatory External Rotation of PIEs on the Corresponding Objectives

The EC states that “mandatory rotation is the 'sine qua non' of the whole package of proposals as the other measures in isolation will not be sufficient to reinforce independence and professional scepticism” (EC, 2011, Online). This implies that mandatory external firm rotation constitutes the foundation for many other measures. Therefore, it is especially relevant to examine whether the mandatory external firm rotation in Germany is in line with its intended objectives of reinforced independence, increased audit quality and a more dynamic German audit market (as identified in chapter four). Desired and undesired side effects that might be caused by the mandatory external firm rotation are considered since they might strengthen or harm the intended objectives of this measure as well as other objectives

of the audit reform. Before analyzing these impacts, the German companies influenced by the mandatory external firm rotation as well as the temporal application of the measure in Germany are taken into account.

5.2.1 Obligated Parties and Temporal Aspects

Until now the German regulator made use of the 2006/43/EC's option which requires only capital market oriented companies to fall within the definition of PIEs. However, such an option is no longer present in the Directive 2014/56/EU. Therefore, additionally to capital market oriented companies, non-capital market-oriented credit institutions, and insurance companies will fall within the definition of PIEs. According to the German Chamber of Public Accountants, the number of PIEs will hence increase from 777 to 1,592 in Germany (WPK, 2014a). This implies that within the next two decades almost 1,600 companies have to change their auditors (Plendl, 2015, p.V5), causing "a significant effect on auditor switching rates in Germany" (Krauß, Quosigk & Zülch, 2014, p. 40).

In particular, the study by Köhler and Herbers reveals that among the 110 companies which were listed on the DAX, mid-cap DAX (MDAX) and Technology-DAX (TecDax) between 1997 and 2012, 44 companies did not change their auditors within this time span (Buhleier, Niehues & Splinter, 2014b, p. 151-152). This implies that these 44 companies of which 24 are DAX entities, 13 are MDAX companies and 7 are TecDAX firms, have to change their audit company until 2021 (Buhleier, Niehues & Splinter, 2014b, p. 151-152). Furthermore, among these investigated companies 20 entities switched their audit company between 1998 and 2004 (Buhleier, Niehues & Splinter 2014b, p.151-152), which implies that they have to change the audit firm by 2024 (Regulation (EU) 537/2014). Experiences from other countries where mandatory rotation has already been implemented such as Italy, the Netherlands and Great Britain (Braun, 2014; IDW, 2012) demonstrate that companies carry out the change from one audit company to another at the beginning of the transition periods (Buhleier, Niehues & Splinter, 2014b, p.151-152). Even though it is impossible to predict when exactly the companies will change their audit firms, it is clear that the majority of German listed companies have to change their auditors before 2024 which brings along consequences for companies, audit firms and the German audit market.

5.2.2 Effects on Independence ('1A')

Among academics, the business media, the German audit profession and the German audit institutions, the opinions are divided regarding the effects of mandatory external rotation on independence. This viewpoint is also reflected by the interviewed experts. Whereas few authors claim that mandatory external rotation is able to reinforce independence, most authors question a positive connection between mandatory external rotation and enhanced independence.

Reduced Familiarity by Mandatory External Rotation

The authors who claim that independence can be reinforced by mandatory external rotation argue that mandatory rotation “brings a fresh set of eyes” (Tan 1995, in: Fiolleau et al., 2013, p. 867) which reduces familiarity and hence, increases objectivity and independence (see: Köhler & Gehring, 2015; Quick, 2014, in: KPMG, 2014a). Furthermore, it is argued that the surpluses which the audit company gains after the initial induction period will be limited due to the rotation time which reduces the financial self-interest of the audit company (Quick, 2014, in: KPMG, 2014a, p.20). Expert 1, 3 and 9 support this view and expert 3 further substantiates his opinion by stating “new brooms sweep cleaner”. Noticeable, very few individuals, especially non-Big Four experts, German regulators and academics, see a positive intervening process between mandatory external rotation and reinforced independence.

Questionable Intervening Process between External Rotation and Independence

In contrast, other academics argue that there is no empirical evidence which proves the reinforcing impact of mandatory external rotation on independence (Velte, 2014b; IDW, 2012; Fiolleau et al., 2013; Myers, Myers, and Omer 2003; Ruiz-Barbadillo, Gomez- Aguilar, and Carrera 2009; Beasley et al. 2009 in: Fiolleau et al., 2013), which is echoed by expert 4. Additionally, expert 4, 5, 6 and 8, which are all representatives of the audit profession, do not believe that external rotation increases independence in general.

Fiolleau et al. (2013) claim that “firm rotation can break relationships with a single audit partner, [but] it is unlikely to completely sever links with audit firms” (p. 878). Since profitable additional services are provided to the company (WPK, 2013), it is unlikely that professional relationships will break up completely, which is also stressed by expert 7. In their case study, Fiolleau et al. (2013) revealed that “all Big 4 firms had working relationships with this company both before and after the audit selection decision was made” (Fiolleau et al.,

2013, p. 878). Consequently, it is questionable if mandatory external audit firm rotation really results in a completely fresh and independent attitude.

Furthermore, the logical consequence of mandatory external rotation is that possible new audit firms will take part in competitive tendering. During the process of engaging a new audit firm, Fiolleau et al. (2013) found evidence that management is able to ask for "preferred client treatment" (p. 880) due to the management's powerful position in a highly competitive audit market. As a consequence, mandatory external firm rotation could even have a negative effect on independence.

Besides this discussion about the intervening process between mandatory external rotation and reinforced independence, the German Chamber of Public Accountants claims that there is no necessity for external rotation since familiarity threats are sufficiently counteracted by the laws of internal rotation (IDW, 2012). Expert 5 and 6, which are both board members of Big Four audit companies, as well as expert 8, also are convinced that the internal rotation which is implemented in Germany is more efficient in securing independence than external rotation.

Legal Grey Zone

Moreover, legal gray zones further challenge the already questionable intervening process between mandatory external rotation and independence. The regulation does not explicitly specify that the external rotation also includes employees, which could imply that employee rotations from one Big Four to another occur to circumvent the regulation (apa, 2014; Kaindl, 2014; Henrichs, 2013). According to the association for midsize audit companies, as well as expert 7, it is not unusual that auditors change jointly with the client to another (Big Four) audit company (Verband für mittelständische Wirtschaftsprüfung, wp.net journal 02-2015). For instance, in 2012/2013 the auditors of Gerry Weber moved jobs from Mazar to PwC exactly when Gerry Weber changed its audit company from Mazar to PwC (Verband für mittelständische Wirtschaftsprüfung, 2015). This gray zone is neither regulated by the internal nor the external rotation. Hence, the intentions of the audit reform to reinforce independence can be circumvented.

Another grey zone that hinders the positive impact of external rotation on independence are the options granted to the Member States, which allow to extend the maximum engagement period from ten years to 20 years in case of a public tendering process and 24 years in case of joint audits (Regulation (EU) 537/2014). In the current German draft regulation AreG RefE,

the German regulators will implement these long usances of 20 and 24 years respectively (BMJV, 2015). However, Velte (2014a) and apa (2014) argue that these long periods reduce possible impacts of the external rotation on the intended objective of reinforcing independence. Expert 1 and 3 confirm these claims. Expert 5 specifies that these rotation periods are nearly a whole lifetime of an auditor and questions “why should this then lead to an increased independence?” (Expert 5). In the context of long education periods of auditors in Germany (at least seven years) (Nobes & Parker, 2012), the argument of expert 5 seems reasonable. Furthermore, expert 6 and 8 do not believe that these time limits are generally too long to reinforce independence, but they are convinced that internal rotation is more effective and hence, mandatory external rotation is redundant.

Overall, most arguments reveal a questionable intervening process between external mandatory rotation and independence.

5.2.3 Effects on a Clarified Societal Role (Quality) (‘1B’)

Weak Intervening Process between External Rotation and Audit Quality

As identified in chapter four, audit quality is another objective which, according to the EC’s logic, shall be improved by mandatory external rotation. For the assessment of this measure on audit quality, it is again useful to have a look at the theoretical reasoning for this intervening process. So far, empirical research for the case of Germany could not demonstrate that mandatory external rotation can cause quality intensification of audits (Velte, 2014a; Velte and Stiglbauer, 2012; Wadewitz, 2013a; Kaindl, 2014). Therefore, these academics and business journalists argue that mandatory external rotation should not be introduced since it lacks the empirical evidence that it can reduce possible flaws of audits. According to Michael Andrew, Chairman of KPMG International, all big audit companies do not believe that the mandatory external rotation can enforce quality in statutory audits (Hecht, 2013). Besides expert 3 and 7, all other experts reflect this argument and question a positive relationship between rotation and audit quality. Expert 1 and 5 explicitly state that they do not see a connection between mandatory external rotation and improved quality.

Moreover, the Chamber of Public Accountants (WPK) and the Institute of Public Auditors in Germany (IDW) share the same opinion as the authors above. They further add to the reasoning that two of three EU-Member States, which introduced the external mandatory rotation, changed the measure shortly after it was introduced in favor of internal rotation

(WPK, 2010; IDW, 2012; also mentioned by expert 6). Greece and Spain abolished mandatory external rotation when it became evident that the intended objective of quality improvements of audits was not reached (WPK, 2010; IDW, 2012). The improvement of audit quality by mandatory external rotation is further suspicious since during the discussions about the 2006 audit directive even the EU Parliament and EU Council acknowledged that there is a possible risk of decreasing audit quality (WPK, 2010).

Loss of Knowledge

One frequently mentioned reason why mandatory external rotation is said not to improve audit quality is that it probably leads to a loss of knowledge upon auditor rotation. The institute of Public Auditors (IDW) in Germany complains that “necessary expertise - in particular in the necessary level of detailed knowledge of the business, the economic environment, the processes and systems of the clients” (IDW, 2012, p.6-7) is mostly lost when the audit company rotates. A research by Köhler and Gehring (2015) on German audit companies and listed companies on the DAX, MDAX and TecDAX stresses that the factors “experience”, “comprehension of the business activity” and “understanding of the systems and processes” are key to audit quality (Köhler & Gehring, 2015, p.238). However, these factors are threatened by external rotation and hence, could have a negative impact on audit quality (Köhler & Gehring, 2015, p.238).

Furthermore, the media (Kaindl, 2014; FAZ, 2014; Velte, 2014a; Hecht, 2013) as well as other German institutions (WPK, 2010; BMJV, 2015; expert 4) support this view. Attention should be paid to the fact that even the BMJV acknowledges that external rotation negatively affects audit quality and, hence, the BMJV argues in favor of the options which allow to extend the audit engagement period (BMJV, 2015). Moreover, Deloitte (2013), KPMG (2014a) and the IDW (2012) reason that during the first years of client relationships, the risks to overlook fraud and errors are higher, which was demonstrated by a study of the PCAOB. Furthermore, “in the first years of the audit-client-relationship the auditor is highly dependent on the information provided by the client whose correctness he cannot control easily” (KPMG, 2014a, p.20). Due to the increased dependence of the auditor on the client in the first years the quality might suffer as the auditor might have difficulties to detect fraud. Consequently, the document analysis revealed that most stakeholders identify a weak intervening process between external rotation and quality due to the loss of knowledge caused by external rotation. Expert 1, 4, 6 and 8 support this argument.

Furthermore, expert 5 adds a new line of argumentation. Due to the “extreme movements in the audit market” triggered by the external rotation, he expects that “enormous capacities” will become necessary for audit companies to handle the expected rotation wave. Expert 5, therefore, concludes that capacity constraints will occur in the German audit market which “might easily lead to quality problems”.

Contrary to the findings of the document analysis where no proof in favor of the intervening process was found, expert 3 and 7 have a different view. They claim that the Big Four use the argument of a loss of knowledge in order to justify their disfavor of external rotation. According to these experts, gaining in-depth knowledge of the organization and its processes is a natural element of audits. These experts state that the Big Four try to avoid this extra work due to additional costs that are caused by the extra work. Expert 7 further adds that “if you audit BMW and in the course of the external rotation you gain the mandate for Mercedes, you cannot justify a loss of knowledge due to the similar industries”. Hence, if professional expertise for one industry exists within an audit company, it is unreasonable to claim a loss of knowledge. Moreover, expert 9 stresses that mandatory external rotation does not per se reduce audit quality. According to expert 9, audit reports of companies in which the auditor just changed, have a higher probability to be examined by the oversight authorities, because according to statistics the risk of error is higher during the first years of an engagement. If the auditor knows that these particular audits represent a main area of inspection by the oversight body, then the auditor should invest more time and personnel in order to assure the audit quality (expert 9). Therefore, expert 9 argues that audit quality neither decreases nor increases.

Questionable Effects of Low-Balling

The ambiguous effects of low-balling (high initial audit fee discounts) additionally contribute to a questionable intervening process ‘1B’. Academics (Henrichs, 2013; Krauß, Quosigk & Zülch, 2014; Krauss, Pronobis & Zülch, 2014), German audit institutions (Gschrei & Luxi, 2015; IDW, 2012; IDW, 2010), and business media (Boecker, Hartmann & Zwirner, 2013; Lückmann, 2014) agree that mandatory external rotation will lead to a “systematic fee cutting for initial audit engagements years in Germany” (Krauß, Quosigk & Zülch, 2014, p. 40). For instance, the member of the board of Deutz AG, Mrs. Dr. Haase, stated on the APAK’s anniversary celebration that it is worth to tender the audit engagements because it reduces the audit fees, even though later the audit company is not changed (Gschrei & Luxi, 2015).

Gschrei and Luxi (2015) also reveal in their case study on German MDAX companies that within the 17 rotations that occurred between 2007 and 2013, in ten cases the audit fees dropped. The Deutz AG even reached approximately a rate of return of 40% when changing from PwC (audit fees of EUR 521,000 in 2006), to Deloitte (audit fees of EUR 305,000 in 2007) (Gschrei & Luxi, 2015).

Besides this agreement on initial audit fee discounts caused by mandatory external rotation, the opinions about low-balling on audit quality are diverse. On the one hand, the IDW (2012), Hennrichs (2013), Geiger and Raghunandan (2002; in: Krauß, Quosigk & Zülch, 2014), as well as Boecker, Hartmann and Zwirner (2013) are convinced that the measure of rotation causes a price pressure which negatively affects the audit quality. According to expert 5, “battles of prices ... have at least a potential danger for audit quality. Either audit companies make losses due to the low prices or they reduce their staff to save costs which results in a loss of audit quality.” However, Boecker, Hartmann and Zwirner (2013) also identify the ambiguity of paying a high fee for good audit quality and the danger of dependence when the audit fee is high.

On the other hand, Krauß, Quosigk and Zülch (2014) did not find evidence that low-balling impairs audit quality in their German research on “992 firm-year observations from 2005 through 2011” (p. 40). Furthermore, their findings support “DeAngelo’s (1981) theory that low-balling is merely an auditor’s natural response to competitive market conditions and not necessarily related to auditor dependency issues” (DeAngelo, 1981, p. 126; in: Krauß, Quosigk & Zülch, 2014, p. 51). Lückmann (2014) and Krauss, Pronobis and Zülch (2014) also share the opinion that audit quality is not impaired by low-balling. This analysis reveals that among academics, the business media and the IDW there is no unanimous consensus of whether low-balling impairs audit quality or not. However, since no empirical investigation proves the negative impact of low balling, it seems that only the perceived audit quality might be decreased and not the real audit quality.

The arguments contained within 5.2.2 and 5.2.3 for the measure of external rotation, lead to the conclusion that trade-offs between quality and a reinforced independence must be made, if it is possible to strengthen independence after all. The discussion about external rotation has demonstrated that the few arguments that justify a strengthening of the independence are “opposed by arguments relating to the impairment of the competence and experience of the auditor” (Köhler, 2010, p. 1; see also: Köhler & Gehring, 2015). Hence, even if the EC’s

assumption of a reinforced independence by the external rotation can be followed, the effects of mandatory external rotation on audit quality are contradicting.

5.2.4 Effects on Market Diversification ('1C')

Necessity to Increase Diversification by Mandatory External Rotation

The break-up of the market concentration of the Big Four is another objective that the EC wants to reach with the mandatory external rotation (Regulation (EU) 537/2014). Before considering if this measure can contribute to a more dynamic audit market, it is however necessary to examine the German audit market in order to see if there is a need to diversify the audit market in Germany.

When considering all audited companies in Germany, the Big Four reach a market share of 19% as measured by the turnover in 2009 (Le Vourc'h and Morand, 2011). Nevertheless, this picture changes substantially when considering the German PIE audit market. According to the WPK's market structure analysis the big audit companies, namely the Big Four and BDO, have a market share of 71.7% as measured by the number of audit clients (WPK, 2013). From 2011 to 2013 the market share of the big audit companies increased slightly from 69.8% to 71.7% as illustrated in figure 5.2 (WPK, 2013).

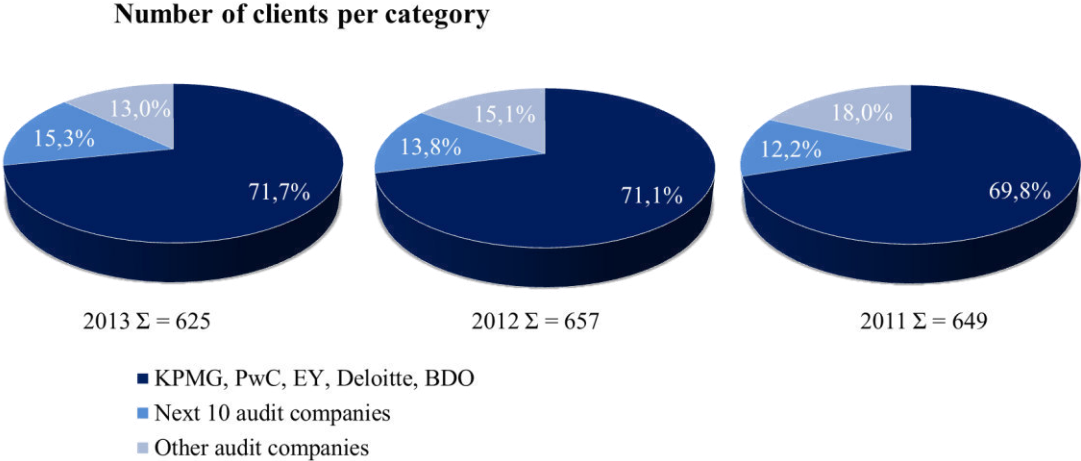


Figure 5.2 - Market Share of the Big Audit Companies in Germany on the PIE Audit Market (WPK, 2013, p. 11)

When considering only companies that are listed on the DAX, MDAX, Small-cap-DAX (SDAX) or TecDAX, the result of the market share is even stronger as illustrated in table 5.1. All companies listed on the DAX were audited by the Big Four in 2011 (dpa/Haufe, 2013; Boecker, Hartmann & Zwirner, 2013). The statistics for the MDAX, SDAX and TecDAX also indicate a high concentration level of the Big Four.

Audit Company	DAX	MDAX	SDAX	TecDax	Total
KPMG	17	16	8	5	46
PwC	9	13	16	8	46
EY	3	11	8	10	32
Deloitte & Touche	1	6	8	2	17
Others	0	5	10	5	20
Total	30	51	50	30	161

Table 5.1- Number of Audit Clients per Audit Company and Index for 2010/2011 (Boecker, Hartmann, & Zwirner, 2013, p.158)

The table indicates that 87% of the 161 biggest German stock corporations are audited by a Big Four audit company. The long-term comparison of Bauer (2015) from 2004/05 to 2009/10 and the study of Quick and Sattler (2011) between 2005 and 2007 also reveal that the market concentration of the Big Four audit companies is extremely high for companies listed on the DAX, MDAX, SDAX and TecDax. Besides the high market concentration of the Big Four, the distribution of audit engagements also differs among the Big Four Group. Already in 2007 it was noticed that PwC and KPMG have a dominant market position against EY and Deloitte, leading to a duopoly on the German audit market (Quick and Sattler, 2011). This superiority is also reflected by table 5.1 where PwC and KPMG together audit 86% of the DAX companies and 56% of the MDAX segment. As a result, these statistics indicate a very high concentration level on the German audit market along with a market dominance of the Big Four, which leads to the conclusion that a measure such as ‘mandatory external rotation’ is necessary to create a more dynamic audit market.

In contrast, the IDW, the German Government as well as the PCAOB question whether market concentration leads to a decrease in audit quality and whether mandatory external rotation is necessary and appropriate (IDW, 2012; Le Vourc’h and Morand, 2011). Furthermore, it is argued that there are reasons for the development of the Big Four, such as the global provision of services which question the necessity to reduce their market dominance (Kaindl, 2014). Moreover, it is claimed that the investigations regarding the merger between the former Arthur Andersen and EY did not reveal negative consequences for the competitive situation in Germany, even though this merger further concentrated the audit market (Zimmermann 2008, in: R. Quick und M. Sattler, 2011; WPK, 2010). Hence, these authors question the necessity to diversify the audit market, even though the above statistics clearly indicate a high concentration and the need for governmental intervention.

Intervening Process between Mandatory External Rotation and Market Diversification

Besides the discussion on the need of a measure that reduces the market concentration, it is necessary to analyze in which way the external mandatory rotation is in accordance with the intended objective to contribute to a more dynamic audit market. Only few authors recognize the possibility that mandatory external rotation can have a positive impact on the competition of the German audit market (Kaindl, 2012; BMJV, 2015; BDO, 2014). For instance, BDO appreciates that mandatory external rotation offers a possibility to international non-Big Four audit companies to increase their perception (BDO, 2014).

Missing Capacities and Competences of Non-Big Four Audit Companies

Apart from these few individuals who recognize a positive intervening process between mandatory external rotation and market diversification, there are many arguments which question a strong intervening process between rotation and market diversification. One strong argument is that missing capacities and competencies of smaller audit firms limit the choice for large, international clients. This argument is supported by academics, Big Four companies, German institutions, and the business media as well as by all interviewed experts. Smaller and mid-tier audit companies simply do not have the know-how, organizational structures and personnel to provide statutory audits to complex multinational companies which need advice for a lot of subsidiaries in several countries (MarketLine, 2013; Fockenbrock, 2013; Bauer, 2015; Deloitte 2012b; Quick & Sattler, 2011; experts 1-9). Therefore, “a multinational company (MNC) would have difficulty putting mandatory audit firm rotation into practice as it needs to select auditors that have the relevant capabilities to implement consistent quality audits in all of the markets in which the MNC operates” (Deloitte 2012b, p.7). Consequently, “it does not matter whether it will be rotated after five or ten years. KPMG and PwC will just switch the clients” (Fockenbrock, 2013, p.27).

Additionally, it is argued that the good brand reputation of the Big Four audit companies plays a major role when selecting an audit company (MarketLine, 2013; Quick and Sattler, 2011). Since “switching from a "Big Four" auditor to a smaller player may be viewed negatively by the capital markets” (MarketLine, 2013, p.12), it does not seem that mandatory external rotation can increase the market diversification beyond the Big Four. Overall, this discussion reveals that there are not many audit companies which can meet the needs of MNCs and, as a result, the EC’s argued intervening process between mandatory external rotation and a more dynamic audit market is weak.

Direction of change

Additionally, there are two main arguments which infer that mandatory external rotation cannot contribute to a more dynamic audit market or will actually lead to a more concentrated market. Firstly, from a German perspective it is reasonable to argue that mandatory external rotation will benefit the Big Four companies, since in the case of a rotation the companies will rotate between Big Four companies (Köhler, 2010; Velte, 2014b; IDW, 2011c; Quick & Sattler, 2011; Boecker, Hartmann & Zwirner, 2013; Betriebs Berater 2014; Bauer, 2015; WPK, 2010; Verband für mittelständische Wirtschaftsprüfung, 2015). Aside from a consensus in the reviewed documents, all interviewed experts agree on this expected “merry-go-around” as expert 1 calls it. Furthermore, expert 5 expects especially in the banking and insurance sector a high likelihood of rotation from one Big Four to another Big Four company.

Secondly, all interviewed experts anticipate that most rotations will cause a move from a non-Big Four audit company to one of the Big Four audit companies. According to them external rotation will not lead to a more dynamic audit market. This is statistically proven by a study conducted by Köhler (2010) on rotations in the German capital market (financial sector excluded). According to Köhler (2010), more audit engagements were lost from non-Big Four companies to the Big Four between 2005 and 2010, as shown in table 5.2.

Company size categories based on balance sheet totals				
Auditor change direction	Less than 100 million EUR	100 to 500 million EUR	Over 500 million EUR	Total
B4 to B4	21	31	28	80
B4 to Non B4	36	9	4	49
Non B4 to Non B4	41	10	0	51
Non B4 to B4	28	24	10	62
Total	126	74	42	242

Table 5.2 - Number of Auditor Changes, Differentiated by Direction of the Auditor Change and Company Size Categories Based on the Balance Sheet Totals of the Audited Companies (Köhler, 2010, p.3)

Furthermore, Köhler claims that the probability that an audit engagement will be lost by a non-Big Four increases with the size of the engagement (Köhler, 2010, p.6). As indicated by table 5.2 “in the smallest size category the relative frequency of change from a Big Four to a non-Big Four is substantially larger than from a non-Big Four to a Big Four” (Köhler, 2010, p. 4 academic). On the contrary, in the largest size category the direction of change is in favor of the Big Four (Köhler, 2010). Based on a scenario analysis Köhler (2010) concludes that

among all three size categories “a mandatory rotation would result in the shift [of] a total of 12 engagements and a total audit fee volume of EUR 4.6 million from the non-Big Four to the Big Four” (Köhler, 2010, p.6).

Consequently, mandatory external rotation negatively affects mid-tier and smaller audit companies because they will in most cases lose mandates. Therefore, KPMG (2014a), EY (2014b), Grant Thornton (in: Metzger, 2012) and the IDW (2012; 2010), as well as the interviewees, expect that the market concentration further increases due to mandatory external rotation and negatively affects the mid-tier audit companies.

Another aspect that further leads to a weak and negative intervening process between mandatory firm rotation and market diversification are the increased activities of the Big Four audit companies in the German medium-sized company sector at the expense of mid-tier audit companies. The deselected auditors will head once more in lower market segments and additionally increase the market concentration (Lückmann, 2014; Betriebs Berater 2014).

Overall, the analysis indicates that mandatory external rotation negatively affects mid-tier and smaller audit companies as they will lose mandates. Following this line of argumentation, the audit market will be further concentrated, and competition will not increase. Since this argument is supported by all interviewed experts and the document analysis revealed that German institutions, German academics, the Big Four, smaller audit companies and the business media identified a negative effect of mandatory firm rotation on the market diversification, it seems that this argument is rather strong. Therefore, the intervening process ‘1C’ is not only weak, but possibly contradicting to the EC’s intentions.

5.2.5 Side Effect on Cross-Border Provision (‘1D’)

Even though, the facilitation of the cross-border provision of statutory audits is not an intended objective of the external mandatory rotation, the options of this measure provoke some side effects on the cross-border provision of audits. Plendl (2015) and Ruhnke (2014) criticize that the options which were granted to the Member States in regard to the implementation of the mandatory external rotation of PIEs are not beneficial for a uniform application of the regulation. According to the Regulation (EU) 537/2014, Member States can allow extending the rotation period from ten to 20 years, if a public tendering takes place after ten years, or alternatively to 24 years if a joint audit is done. In the current German draft regulation, the German regulators will implement these extensions of 20 and 24 years

respectively (BMJV, 2015). Nevertheless, other countries will apply these options differently. For example, it is anticipated that Italy will determine a shorter rotation period of nine years and other countries will not make use of these options at all (Plendl, 2015; Braun, 2014). Consequently, transnational companies whose subsidiaries are treated as PIEs in different countries are confronted with dissimilar rotation periods. This argument is confirmed by expert 1, 2, 3, 5, 6 and 7. Hence, harmonization and the facilitation of cross-border services are hindered.

5.2.6 Side Effect on the Audit Committee

The IDW (2012), EY (2014a) and Deloitte (2012a) further claim that mandatory external rotation limits the autonomy of the supervisory board and audit committee because it limits their assessment to choose the most capable audit company. Consequently, “it reduces the audit committee’s authority over the audit relationship, which, over time, weakens audit committees and is harmful to audit quality” (EY 2014a, p.2). This negative side effect of external rotation on an enhanced audit committee is also confirmed by expert 5 who claims that the supervision function of the audit committee is depreciated as the audit committee might have the perception that it is not necessary to question independence during the first ten years, as the government does not see a problem for independence during the first ten years.

Remarkable is that this particular argument is featured only by representatives of the profession. Consequently, it seems that the other stakeholders do not follow this argument or at least do not consider it important to mention. Furthermore, Deloitte’s, EY’s and IDW’s argument implicitly assumes that one audit company is better or worse than another one.

5.2.7 Implementing the Findings into the Analytical Framework

Overall, the document analyses, as well as the interviews, have demonstrated that the intervening process between mandatory external rotation and reinforced independence is questionable. The desired effects are doubtful or contradicting, as in this analysis no meaningful arguments were identified that justify the application of a mandatory external rotation to reinforce independence. Legal gray zones and the unproven empirical evidence that external mandatory rotation can reduce independence, question the EC’s argued intervening process ‘1A’.

Furthermore, the analysis also demonstrated that there is a weak intervening process between external rotation and quality. On the one hand, missing empirical evidence questions the intervening process '1B' and, on the other hand, a loss of knowledge counteracts an improved audit quality. The discussion about low-balling further challenges the impact of rotation on quality, even though it appears that there is no meaningful negative impact on audit quality by initial fee discounts. Furthermore, when contrasting the effects of external rotation on independence and audit quality the analysis reveals that even if the EC's assumption of how external rotation should reinforce independence can be followed, the effects of mandatory external rotation on audit quality are contradicting. Hence, reinforced independence and audit quality offset each other in regard to external rotation.

Even though there are some parties which claim that it is not necessary to intervene on the German audit market; the statistics of the German audit market paint a different picture. The German audit market is highly dominated by the Big Four and in some segments even an oligopoly of KPMG and PwC is visible. Hence, there is a need to intervene and break up the dominance of the Big Four in order to support smaller audit companies. Nevertheless, it is questionable whether mandatory external rotation is an appropriate measure to reach this objective. Aside from some opinions that see a positive intervening process between external rotation and market diversification, the arguments against a positive relationship between '1C' outweigh. The missing competences and capacities of the non-Big Four, and the statistics about the direction of change in case of an auditor change indicate that the external rotation will lead to an increased market concentration at the expense of non-Big Four audit firms. Consequently, it seems that the EC's argumentation for implementing mandatory external rotation is not in line with its intended objective of a more dynamic audit market. The following years will reveal if the contrary to EC's intentions is reached, but so far the statistics lead to the assumption that an increased market concentration might be the result.

Furthermore, the analysis reveals that there might be a negative side effect on the cross-border provision of statutory audits due to the options regarding mandatory external rotation. A negative impact on the authority of the audit committee cannot be ruled out.

When implementing these findings into the analytical framework, the following figure emerges.

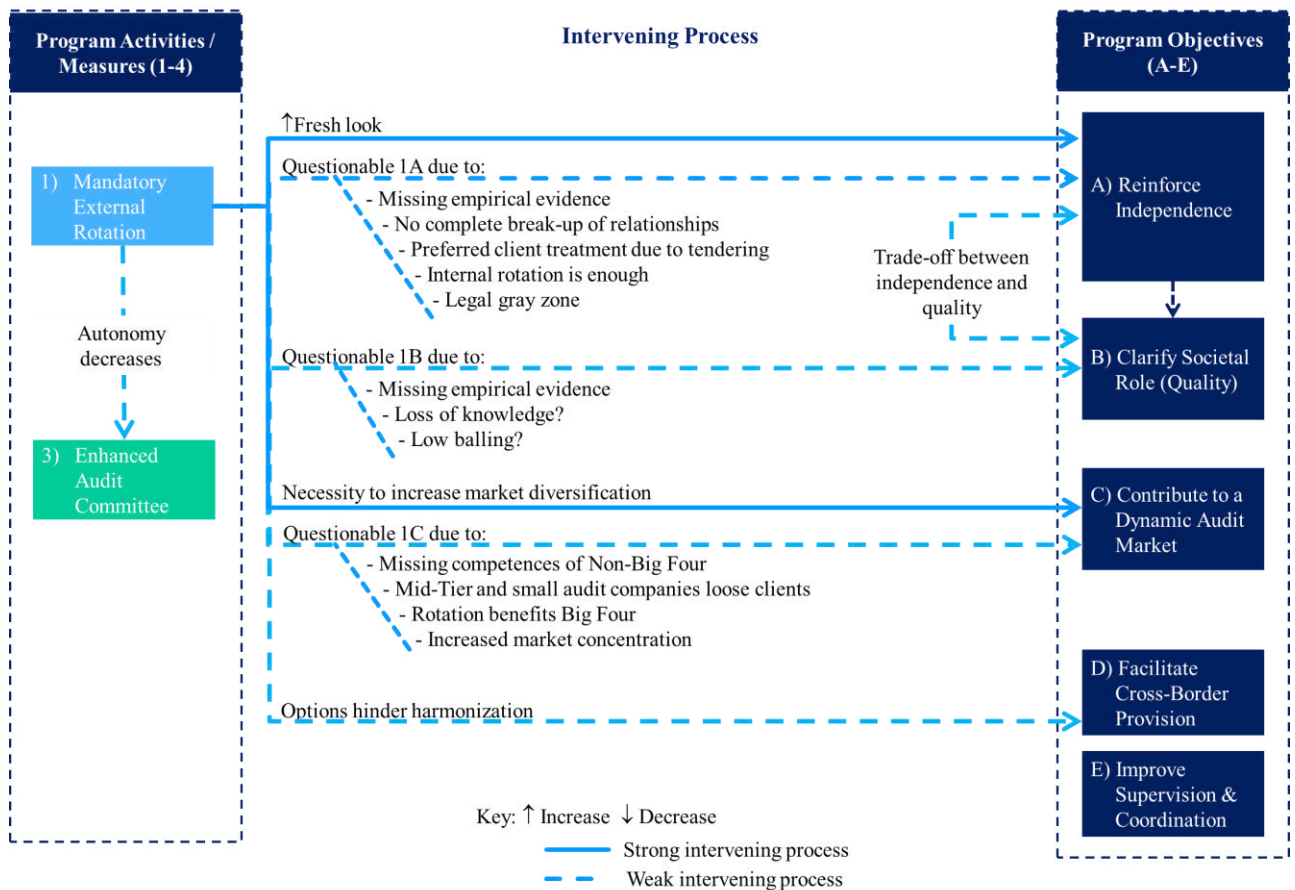


Figure 5.3 - Findings of External Rotation Implemented into the Analytical Framework (Own Representation)

5.3 Impact of Prohibition of Specific Non-Audit Services and the Limitation of Non-Audit Fees on the Corresponding Objectives

The prohibition of NAS and the NAS fee limit is to some extent already integrated in the German commercial code (HGB). Therefore, this chapter begins by discussing the changes occurring in Germany through this measure and then continues to examine the intervening process between the measure and independence (process ‘2A’), and diversification (process ‘2C’). As in section 5.2, side effects that are pointed out by the four groups examined in this paper in Germany (business media, academics, audit profession, and audit institutions), as well as those pointed out by the interviewees will be integrated into the discussion.

5.3.1 Current NAS and Fee-Limit Rules in Germany

Starting with the discussion on the prohibition of certain NAS (also referred to as “Blacklist”) and fee-limits of NAS, it is necessary to point out that the HGB already includes a prohibition of certain NAS and a fee limit in §319a HGB (see: Velte, 2014a; Boecker, Hartmann & Zwirner, 2013; Quick & Sattler, 2011). This paragraph was already added to the German Commercial Code in late 2004 in the course of the German Accounting Law Reform Act (Bilanzrechtsreformgesetz - BilReG) (BMJV BilReG, 2004). The BilReG enacts international accounting standards as well as “securing the quality of auditing” (BMJV BilReG, 2004, p.3166). The main restrictions of §319a HGB that lead to a prohibition of the auditor to audit a PIE are (own translation):

§319a (1) No. 1: if the total amount of fees received by the auditor of one entity during the last five years exceed 15% of his total fee volume (networks where the entity holds more than 20% of shares are included)

§319a (1) No. 2: if law or tax advisory services were conducted by the auditor to the entity that exceed design alternatives and that have a direct and not only essential impact on the presentation of the net assets, financial position and results of operations

§319a (1) No. 3: if the auditor was engaged in designing, establishing and implementing an accounting system, provided that the task was not from minor significance

§319a (1) No. 4: if the auditor has been responsible for the entity’s audit for more than seven years; this restriction does not apply if the auditor’s involvement was two or more years ago

Expert 1, 3, 4, 5, 6, 7, 8 and 9 underline that these restrictions are already long implemented in Germany and that they do not see problems with NAS as long as no self-review takes place. Expert 6 points out that he finds it important in general to prohibit certain services. After stating the prohibitions of §319a HGB he continues that “implementing some kind of boundaries makes sense. I think that builds trust”. Overall, there seems to be quite a consensus that German laws of NAS regulation are appreciated and accepted.

Current Application: Total Volume Fee-Limit

Therefore, following from §319a HGB, Germany already has a total volume fee limit of 15% and restrictions to some NAS. A difference in regard to the total volume fee limit is that in §319a (1) No. 1 HGB the fee limit is set for five years, whereas the regulation sets it for three years (Regulation (EU) 537/2014, p.L158/86). Important to notice is, however, that the EU regulation does not strictly forbid the audit if this volume limit is exceeded, in contrast to German law. It is stated that if fees exceed the limit, the audit committee needs to be notified and informed about the auditor's "threat to independence and safeguards applied" (Regulation (EU) 537/2014, p.L158/86). The audit committee can then decide to continue the engagement with that auditor for a maximum duration of two more years (Regulation (EU) 537/2014, p.L158/86). Consequently, the measure of total volume fee-limit cannot lead to significant changes in Germany as the EU regulation only introduces a shortened time frame (from five to three years), but with the possibility to extend this time span to five years.

Current Application: Prohibition of NAS

In regard to the restrictions of NAS, the EU's Blacklist includes, for example, all tax services. However, it is according to Article 5 of the regulation a Member States option to permit services from the blacklist if requirements (e.g. immaterial effects) apply (Regulation (EU) 537/2014, p.L158/87). The BMJV, the German ministry which will implement the regulation into German law, published the regulatory draft for the German implementation of the regulation on 23rd of March 2015 (called AReG RefE). As anticipated by the business media, academics and the audit profession (see: Betriebs Berater, 2014; Velte, 2014a; Der Betrieb, 2015; KPMG, 2014a), the AReG RefE suggests only minor changes to §319a HGB (BMJV, 2015) which implies that the current German regulation of NAS and total volume fee limit will continue. Even though the impact of this measure is arguably limited in Germany, it is a highly discussed measure in the German audit environment (all four groups discussed this measure intensively) and will hence be included in the discussion of the intervening processes.

Current Application: NAS Fee-Limit

The limitation of the total NAS fees to "no more than 70 % of the average of the fees paid in the last three consecutive financial years for the statutory audit(s)" (Regulation (EU) 537/2014, p.L158/85) is new to German law. However, this limit is quite high for current German customs and hence, might lead to an increase of NAS provided by the entity's auditor

(Betriebs Berater, 2014). The board's spokesman of PwC Mr. Winkeljohann points out that he "finds this number [70%] quite interesting. It is an unwritten rule for DAX30 companies that non-audit services should not exceed 30%" (Wadewitz, 2013b, p.10). The business media also points out that the regulation restricts the NAS fee limit for consecutive years only (Betriebs Berater, 2014). This is perceived by the business media as a regulation gap, as the volume limit is not applicable if NAS are not received by an entity for one year and continues afterwards, possibly even above 70% (Betriebs Berater, 2014). Even though this measure appears to be majorly different to current customs in Germany, it is only rudimentarily discussed by the four groups in the German audit environment. Expert 3, nevertheless, points out that "now you have these 70%. The 70% can be exceeded in a two-year time frame. The Problem now is that there is no cap of how much you can exceed it, such as capping it to 100%. This can then result in a major disproportion even though you have this measure". He thus concludes that despite the measure's novelty to Germany this part of the measure is quite questionable in its impact.

German Audit Market Fee Distribution

In order to discuss possible impacts of the measure onto the objectives, it is necessary to state briefly German audit firms' income distribution. A study published in 2013 by the WPK (German Chamber of Public Accountants) (WPK, 2013) split the fee distribution of PIE mandates into audit fees, other assurance services, tax advisory services and other services (Figure 5.4). The following numbers refer to that study. The Big Four and BDO distribution for 2013 consists of 55% audit fees, 23% other assurance services, 6% tax advisory services, and 16% other services. For this group the comparison between 2011 and 2013 shows a slight decrease of audit fees of 3 percentage points since 2011. Contrary, fees of "The Next 10 Networks" (and "remaining small audit firms") are distributed as follows for 2013: 78% (77%) audit fees, 6% (7%) other assurance, 5% (8%) tax advisory, and 11% (8%) other services. The audit fee amount for the "Next 10 Network" has increased since 2011 from 72% to 78% in 2013 which demonstrates that the already major share of audit fees in that size of audit companies seems to increase further.

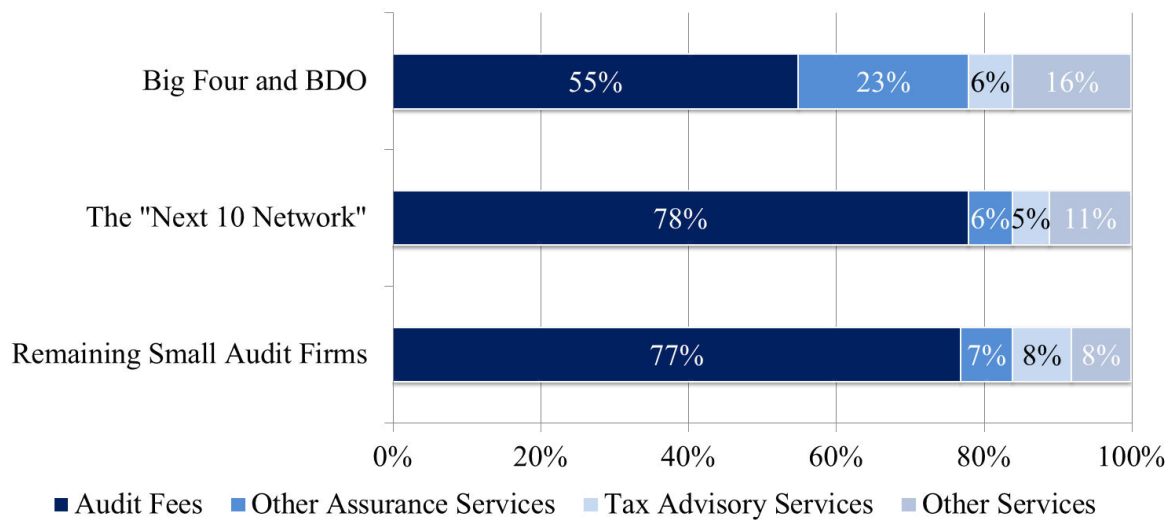


Figure 5.4 - Fee Distribution of PIE Mandates in Germany 2013 (WPK, 2013, p.10)

5.3.2 Effects on Independence ('2A')

The coding of the reviewed documents for this intervening process has pointed to four different categories of arguments. Two of them, "increased independence in appearance" and "increased independence in mind" can be classified as supporting the aim of this intervening process. The others argue against a positive correlation.

Increased Independence in Appearance

A positive correlation between the measure and independence in appearance is identified by academic sources (see: Quick & Warming-Rasmussen, 2009; Tepalagul & Lin, 2015), German auditing institutions (see: WPK, 2012; Gschrei & Luxi, 2015) and the business media (Dobler, Dobler & Fichtl, 2013). Their argumentation reveals one major consensus. Independence in appearance is perceived and proven by studies from academics to increase with the restriction of NAS for the stakeholder group of investors. Other stakeholders' perceptions are not discussed.

Some interviewees even supported an increased independence in appearance in general. Experts 1, 3, 5 and 9 state that NAS are important to keep in mind when it comes to independence in appearance. Expert 5 states that "independence in appearance is something we take seriously. If an outsider finds that we have less audit turnover from one mandate then advisory services, the outsider finds us to lack independence". Nevertheless, these experts again point out that the current German regulations in §319a HGB are already a strong protection to independence in appearance.

As the discussion for this positive correlation is extensive it can, therefore, be argued that the measure, in general, can increase independence in appearance, but mainly as perceived by shareholders.

Increased Independence in Mind

One academic study “examining financially stressed manufacturing companies for the period 2005-2009” found that in the German market there is no evidence that “auditors are less independent when the level of non-audit fees is high in general, although there is some evidence of such impairment when a Big Four audit firm receives relatively high non-audit fees from a client in extreme financial distress” (Ratzinger-Sakel, 2013, p.154, 155). The proxy used in this study to examine auditors’ independence was going-concern adaptations issued by the auditors or audit firms. Consequently, this study supports the claim of the EC that companies that are in critical financial situations (like during the financial crisis) do not receive fully independent going concern examinations. Nevertheless, this study is the only one which points into this direction and should, therefore, be acknowledged but not overemphasized.

Expert 3 supports the EC’s argument that the prohibition of NAS can increase independence in mind with the following line of argumentation: “advisory services generate high income. High income means it hurts to lose the mandate. This threatens the independence in mind when you find something during your audit, but you simultaneously have in mind how important this mandate is for you. The danger that the auditor lets something pass in the audit because of this cannot be denied.”

No Impact on Independence in Mind

Two German Institutions argue against a positive correlation between NAS and independence, namely the German Chamber of Public Accountants (WPK, 2010) and the German Institute of Public Auditors (IDW, 2010). Their main argument is the missing evidence of a negative correlation between NAS and auditor independence thus far. It is necessary to mention, that both the WPK and the IDW represent the interests of the profession and it can be argued that especially the Big Four have an impact on this institute. Hence, a biased opinion towards them is possible.

Furthermore, an academic study from Quick and Warming-Rasmussen (2009) finds that “against expectations derived from theory, the majority of studies on the effect of the

provision of non-audit advisory services (NAS) to an audit client failed to find a negative impact on independence in mind” (p.142). Even though the study supports questioning the intervening process in regard to independence in mind, it is necessary to stress that Quick and Rasmussen (2009) come to their conclusion because the “majority” of studies show no correlation. Expert 1 echoes Quick and Rasmussen (2009) as she points out that from an academic point of view the correlation is difficult to assess as studies can only find mixed evidence to this correlation. She continues to state though that theoretically it should improve independence. Nevertheless, the above implies that some studies have found a negative correlation. Expert 3, 4, 5 and 7 further underline that there are no studies so far that have found conclusive results to this correlation.

As the analysis finds inconclusive opinions and findings in regard to independence in mind, this paper regards this intervening process as possible but not proven and questions whether regulation that cannot be fully justified is reasonable.

Volume Fee-Limit of §319a HGB Is Sufficient

Two sources argue that the volume fee limit in Germany is efficient enough and that consequently financial independence should not be regulated further by NAS restrictions. Firstly, the IDW (2012) points out that the regulation in §319a HGB with 15% volume fee-limits have proven to be sufficient and effective in Germany. This is echoed and justified in the second source. The academic study by Quick and Sattler (2011) finds the volume restrictions in §319a HGB to be effective for fostering independence.

As pointed out above, the experts’ opinion generally support the regulations of §319a HGB. It was however found in the interviews that expert 3 and 8 question the logic of strict percentage limits. Expert 8 states “it is always difficult to assess how long you are independent and where you start to be financially dependent from a mandate. Is it really 15% or is it higher? Overall though, it remains that there is no way to prove that these percentages actually improve independence”.

5.3.3 Side effect on a Clarified Societal Role (Quality) ('2B')

Even though chapter four does not identify '2B' as an intervening process, the analysis shows that this correlation is discussed intensively and is, therefore, relevant for the program evaluation.

Correlation between Specialized Knowledge, Costs and Audit Quality

These three factors are heavily intertwined according to the examined literature, academics, and German institutions as they argue for a correlation of NAS, costs and audit quality. Quick and Warming-Rasmussen (2009) state that "it can be assumed that knowledge spillovers from consulting services are not used to increase audit quality but to reduce audit costs" (p.155). Therefore, these authors do not see a positive correlation between NAS and audit quality. Contrary to that, Velte (2014a) argued before the regulatory draft of the BMJV that it is reasonable that the German regulator most likely will allow NAS as currently allowed "since the significant synergy effects can lead to an empowerment of audit quality" (p.247). Hence, Velte (2014a) argues for a positive correlation between NAS and audit quality which is supported by another academic who states "increase in quality through the prohibition of NAS? Doubtful, more likely to expect quite the opposite" (Henrichs, 2013, p.9).

The two German institutions WPK and IDW argue similarly. The WPK points out that "NAS are fundamental to allow [for] the generation and preservation of specialized knowledge which is inevitably for the audit" (WPK, 2010, p.6). Therefore, it is necessary to keep up the multi-disciplinary functioning of audit firms (WPK, 2010, p.30). The IDW further stresses that banning certain NAS (especially tax services) would be "factually not justifiable, hostile to mid-tier companies and disproportionately" (IDW, 2012, p.11). This is because the IDW is also convinced that the specialized knowledge gained through advisory tasks is necessary for audits and would increase costs for companies if prohibited (IDW, 2012). Moreover, the IDW misses proof of a decrease in audit quality through NAS (IDW, 2012). Furthermore, the IDW points out that if companies are unwilling to pay increasing costs due to an increase in audit fees through intensified workload for auditors, audit quality will most likely decrease (IDW, 2011c). This correlation between the prohibition of NAS, resulting in increased costs and decreased quality is echoed by the institute for mid-tier auditors. It is said that "fees are the most influential quality driver in auditing" and that it is necessary to uphold NAS in order to facilitate high-quality audits (Gschrei & Luxi, 2015, p.10).

Furthermore, the “Handelsblatt” a major business newspaper states that “the belief of Brussels that the separation of advisory and audit will simply result in increased audit quality is quixotic” (Fockenbrock, 2013, p.27). Pfitzer, an academic quoted in business media agrees with the Handelsblatt that the separation cannot be seen as the silver bullet to audit quality and underpins that there is “no evidence that NAS have triggered or fostered the financial crisis” (Pfitzer, 2012, p.929).

Expert 6 points out that “we see that our customers struggle with this question, [separating NAS and audit] as they know that the knowledge and know-how of the auditor regarding their company is valuable”. Expert 8 echoes this by stating “prohibiting NAS in general just does not make sense, you know the company so well that you are able to give qualitative high advice ... as long as you stick to the prohibition of self-review I do not see why an auditor should not give advice”. Contrary to these experts which stress the improvement of quality through auditor’s advice, expert 3 points out that “we are not talking about mid-tier companies here, we are talking about PIEs and for them it might be that you have to block out certain advantageous”.

One source of academics points out that, “the evidence regarding actual audit quality suggests ... [that] tax-related NAS actually improve audit quality” (Tepalagul & Lin, 2015, p.112). This appears to be echoed by the BMJV as the German regulatory draft continues to permit the provision of tax services by arguing that this permission will “improve audit quality” (BMJV, 2015, p.19). This is emphasized as well by expert 6 who states “if Germany implements the option to allow tax services of the auditor, I think they are choosing right.” It is, therefore, possible to see a positive correlation between NAS, in specific tax services, and audit quality in Germany. This might however be due to the difficult tax system prevailing in Germany and the necessity of advice for companies.

Nevertheless, the discussion points out that there is the possibility that restricting NAS might result in a decline of audit quality.

NAS and the Effect on Societal Role of Auditor Depend on Company Characteristic

Deloitte (2012b) states that “in many cases audit clients, particularly smaller companies, value the efficiency and effectiveness of appropriate NAS being provided by the auditor” (p.5). This is echoed by another source in the group of academics. Dobler (2014) examines NAS provided by auditors to family owned businesses, both listed and private, and stresses the role

of the auditor in these businesses. Dobler (2014) finds “support for reciprocal knowledge spillovers between the services” and that “comparative findings suggest that key threats and benefits of jointly provided services are more prevalent among private than among listed family firms” (p.427). These arguments imply two things. Firstly, in family owned businesses, which are an important business form in Germany, auditors are not only mandated for auditing services but also for advisory services. Secondly, the threats and benefits of NAS are more prevalent in private companies, which are mainly smaller companies. A threat to society or the need to clarify the role of auditors can hence not be found for PIEs. This is an interesting finding of Dobler, as the measure only applies for PIEs.

5.3.4 Effects on Market Diversification (‘2C’)

The analysis of the literature for this intervening process was in comparison to the above-discussed correlation fewer and focused on two arguments only. Furthermore, it has been found that no supporting documentation of this intervening process could be found.

Increased Market Concentration by Volume Fee-Limit

One academic and one German institution argue that the volume fee limit of 15% increases the concentration in the audit market. The academics Quick and Sattler (2011) find that independence and diversification are two conflicting objectives as their study concludes that the total volume fee-limit increases concentration. The WPK (2012) echoes this by stating that the volume fee-limit prohibits market-entry. According to the WPK, market-entry is not possible for auditors and audit companies if they try to establish themselves in the PIE market. The WPK (2012) states that if smaller and mid-tier audit companies would take over fee-heavy mandates it would result in an exceeded volume fee-limit due to their overall lower fee volume compared to Big Four overall fee volumes. Hence, the WPK (2012) argues that an increase in concentration can be the result of volume fee-limits, which is echoed by expert 8 who claims that “the 15% limit is especially a problem for small audit firms and the limit could negatively affect their competitiveness”. They question, therefore, the volume fee limit as a measure due to the negative impacts on market diversification.

Shift from Auditing to Advisory

The argument that the prohibition of NAS and NAS fee-limits might lead to a shift from auditing activities to a focus on advisory activities is supported by all stakeholder groups (Quick & Sattler, 2011; Manager Magazin, 2015; Betriebs Berater, 2014; Börsen Zeitung, 2013; IDW, 2011c). They argue that the prohibition of NAS and the NAS fee limit will not be a significant problem for audit firms. It might, however, trigger a shift away from auditing into the more lucrative advisory services due to the NAS fee limit when providing NAS and audit services simultaneously. However, since the audit business represents the entrance into the more lucrative consulting business, Wadewitz (2014) does not believe that statutory audit services will be reduced.

Interesting is the argumentation stated in the interview with the PwC board spokesman. He firstly says “auditing is and will be the core business for PwC” and continues with “PwC internally prepares for the impact of the regulation. We are expanding for example our business consultancy unit” (Börsen Zeitung, 2013, p.10). He, therefore, acknowledges that PwC internally changes its strategy. It is, hence, argued that a shift from auditing to consulting services might lead to an increase in market concentration (Betriebs Berater Heft, 2014; IDW, 2011c).

This shift towards consulting services might also influence the willingness to take-over mandates of other Big Four companies when the maximum rotation period is reached. Even though the direction of change when rotating the audit company, the displacement of mid-tier audit companies and the missing capacities of smaller mid-tier audit companies indicate that the Big Four have the possibility to take over a lot of mandates, it is also important to consider the willingness of the other Big Four companies to take over the mandates.

Due to the NAS fee limit when providing NAS and audit services simultaneously, it might be more profitable for audit companies to provide just the more lucrative NAS services instead of statutory audits. However, since the audit business represents the entrance into a lucrative consulting business, any other Big Four company will replace the prior Big Four company when the limit on the engagement period is reached (Wadewitz, 2014). Consequently, Wadewitz identifies a willingness to take over the mandate of another Big Four company. Expert 5 and 6 further claim that their companies do not consider denying auditing and if the client asks for auditing services they will not reject this demand even though they might have a more remunerative consulting mandate as it is against their client policy. Noticeable though,

these two experts are both management board members of Big Four companies, which should be kept in mind when following their line of thought. Contrary, during an unofficial conversation a partner from one Big Four company claimed that he believes it is questionable if one Big Four really wants to take over the mandate of another Big Four company if in return the big consulting revenues are lost due to the cap on NAS fees. Similarly, expert 7 and 8 also expect that in the future the Big Four will reduce their auditing services dramatically and focus more on consulting, because it is more profitable.

5.3.5 Side Effect on Cross Border Provision ('2D')

Ruhnke (2014) points out further that the prohibition of certain NAS such as tax and due diligence services are options and subject to Member States decisions. Consequently, in his opinion the measure of prohibition of NAS is majorly obstructing a “coherent regulation in the EU” (Ruhnke, 2014).

5.3.6 Implementing the Findings into the Analytical Framework

These findings show how difficult and ambiguous the prohibition of NAS and NAS fee limits is in regard to an increase in quality. It might hence be possible to understand the German regulator in its decision to not change customs in a fundamental way.

Overall, the analysis shows that for this measure, major changes will not occur as current German regulations (especially § 319a HGB) already include features of the measure. On the one hand, the analysis demonstrates that the measure might increase independence in appearance; nevertheless, the findings for independence in mind are limited. On the other hand, the intervening process '2A' is questionable as there is a legal gray zone, an intense discussion against independence in mind, and the introduced NAS fee limit is higher than current German customs.

Furthermore, the analysis reveals a negative side effect on audit quality. Moreover, the intervening process '2C' is limited in its impact due to the fact that the volume fee limit is argued to increase the audit market concentration and that a possible shift from auditing to advisory services is anticipated. Simultaneously, the discussion pinpoints a conflict between the objective to increase independence and reduce market concentration. Another side effect of this measure is the included options which hinder harmonization and hence, the objective of cross-border provision is negatively affected.

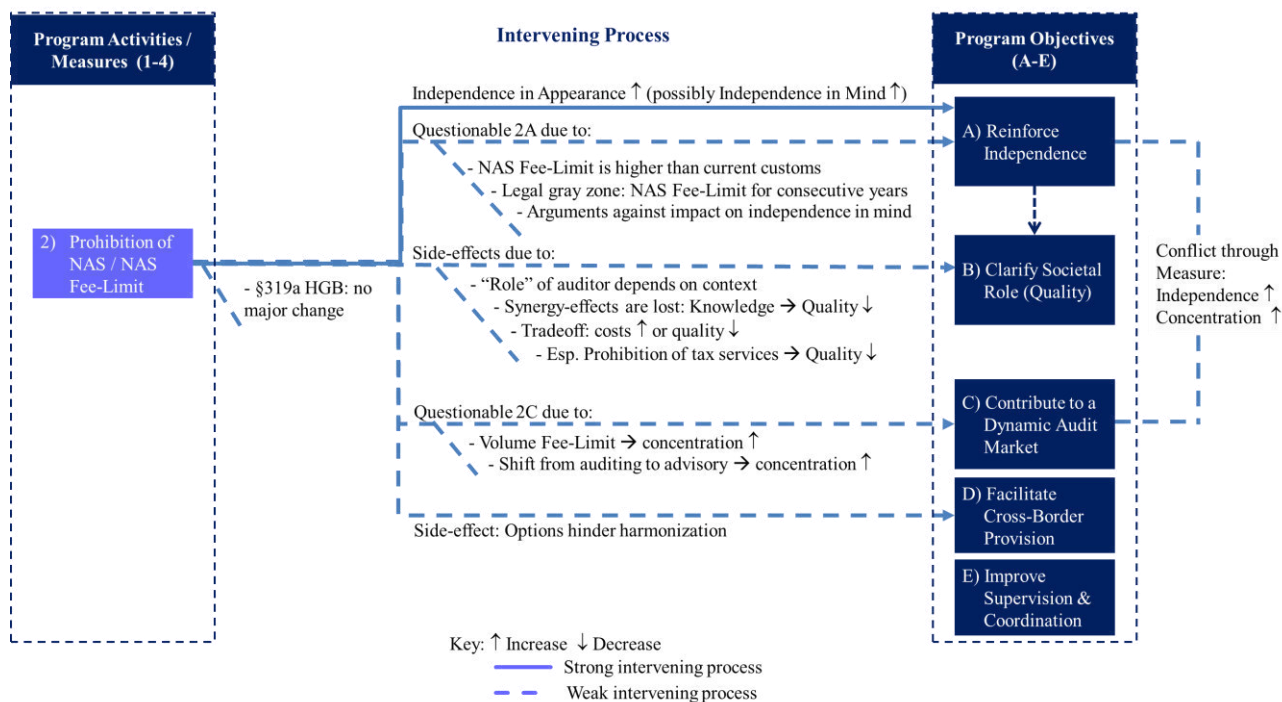


Figure 5.5 - Findings of Prohibition and CAP of NAS Implemented into the Analytical Framework (Own Representation)

5.4 Impact of the Enhanced Role of the Audit Committee of PIEs on the Corresponding Objectives

While coding the documents and interviews for this measure, the authors found that the treatment of this measure is different to the two preceding ones. Firstly, while discussing independence it was found that the discussed independence cannot be linked to objective A as not the independence of auditors is discussed but the audit committee's independence. Secondly, more than half of the statements sorted to this measure during the coding of the documents and statements from the interviews did not discuss the intervening processes itself but the measure in general. Even though, interviewees were specifically asked about intervening processes most did not address the question asked, but stated a more overarching view to this measure. Therefore, this section will follow this finding and emphasize the discussion of the measure itself as well, and then address the intervening processes and side effects were identified. Lastly, tendering, as already addressed in section 5.2, was discussed in connection with the audit committee as well. Since the coding is mutually exclusive and collectively exhaustive, only tendering arguments that were directly linked to the audit committee were coded into this section, which results in a quite brief discussion.

5.4.1 Discussion of the Measure Itself

Support for the Enhancement of the Audit Committee

This coding section is quite distinct as it was found that the documents and interviewees support this measure. It was revealed that a general support for an enhanced role of audit committees can be found in the business media (Velte, 2014a; Velte, 2014b; Fockenbrock, 2013; Wadewitz 2013b), announcements of German Institutions (IDW, 2011c; WPK, 2010; WPK, 2012; IDW 2010; IDW 2011b), and the German audit profession (Buhleier, C., Niehues, M. & Splinter, S., 2014a; KPMG, 2014b). Furthermore, expert 1, 3, 5, 6, 7 and 9 also support this measure.

Another argument occurring in regard to this measure is pointed out by the IDW. The IDW (2011a) states that it is already German law, that if a supervisory board exists the auditor is appointed by them (if not by the shareholders) and the management can assist the supervisory board but cannot decide in this process. Nevertheless, expert 6 (who is generally supporting an empowerment of the audit committee) notes that negotiations with the auditor are often delegated to management, and that therefore measures may need to be taken to ensure that audit committees take full responsibility. Consequently, this might point out that even though legal requirements in regard to the appointment of auditors are in place, there is space for improvement of the power of the audit committee in Germany, which bridges to the next line of arguments.

Assembly of the Audit Committee - the ‘Financial Expert’

In regard to the so-called ‘financial expert’ necessary to be included in the audit committee, the general opinion is welcoming. More importantly though, is the discussion of what this expert actually is and if it constitutes an improvement in Germany.

The business media (Velte, 2014a; Velte, 2014b; Der Betrieb, 2015; Der Aufsichtsrat, 2014b), academics (Buhleier, Niehaus & Splinter, 2014a & 2014b), and the interviewees (experts 1, 3, 5, 6, 7, 8, 9) argue that it is by all means necessary to have members in the audit committee that have an understanding of accounting and auditing in order to facilitate constructive work between the auditor and them. Expert 6 points out that “financial experts should be clearly and narrowly defined”. Expert 3 adds that “when you look at the scandal of the Hypovereinsbank and check the audit committee, then the scandal is no surprise as I really find these people there good-for-nothing”. Expert 5 on the other side sees no necessity to

impose a ‘financial expert’ for DAX30 companies as this currently is “no problem there”. Nevertheless, he says that “the other 130 companies in the DAX have quite a different situation”.

Included in the discussion of the ‘financial expert’ is the missing definition of what a ‘financial expert’ actually is, which seems to weaken this measure. Therefore, it is acknowledged that the planned two ‘financial experts’ would have been an improvement to the measure, but one ‘financial expert’ cannot improve this problem (Velte, 2014a; Buhleier, Niehues & Splinter, 2014b). Furthermore, the independence of the audit committee is discussed as well. Directive 2014/56/EU does not connect independence of the board of management specifically to the ‘financial expert’ but only to the majority of the members of the audit committee. Der Betrieb (2015), therefore, points out, that, even though, this member with adequate knowledge of the audit process is extremely important, the directive opens up the possibility that this crucial member is not independent.

Furthermore, the directive includes the option that Member States can ban the independence requirement applicable for the majority of the audit committee if all audit committee members are simultaneously supervisory board members (Velte, 2014a). For Velte (2014a) this included Member State option is the main problem of this measure because the independence is not guaranteed anymore. This option is implemented in the AReG-RefE (BMJV, 2015) and will hence be implemented into German law. Moreover, as pointed out by Velte (2014a) and Der Betrieb (2015), there is no general obligation for PIEs to have an audit committee at all due to the German dual system. This implies that the independence requirement is obsolete and will have no impact in Germany.

Consequently, it is possible to conclude that this measure is highly appreciated in the German environment but the implemented regulations are not perceived or anticipated as an improvement.

5.4.2 Effects on Reinforced Independence (‘3A’)

Neither the examined literature nor the interviewees argue for or against the intervening process of the audit committee having a direct impact on independence. It was not found during the coding process that the audit committee contributes by reducing the conflict of interest of auditors as argued by the EC and hence, increases independence of audits (chapter 4).

5.4.3 Effects on a Clarified Societal Role ('3B')

Increased Information Exchange Is Questionable

As the EC argues that an increased communication between the audit committee and the auditor leads to an increased audit quality, the arguments that discussed this 'dialog' or 'information exchange' were coded into this section.

Both, the IDW (2011a) and Deloitte (2012a) express their persuasion that an increased role of the audit committee will, through an extensive dialog or "increased, two-way communication" (Deloitte, 2012a, p.5), increase audit quality. Expert 7 points out that he sees an increased communication implemented through the audit reform. Expert 1 sees the new regulation to "impose pressure on the audit committee or the supervisory board", if no audit committee is necessary. She finds that before the audit reform the audit committee or the supervisory board often acted by "what I don't understand, I cannot judge". Due to the shift from oral to written communication this excuse is not possible anymore. Expert 6 finds the dialog between the auditor and audit committee to be "very valuable". Nevertheless, he points out that the discussions that are actually taking place thus far are more concerned with audit fees and less with audit quality. For him, the audit committee takes audit quality often for granted and unrelated to the level of audit fees. Whether or not the audit reform can contribute to this dialog is not clear though.

On the contrary, there is a consensus that in the case of Germany an enhanced role as aimed at with the audit reform is somehow already in place. The WPK (2012) points out that the "German Corporate Governance Codex already includes principles which ensure an intensive and regular communication between the auditor and the audit committee" (p.36). This is echoed by Velte (2014a), who points out that the oral report of the auditor to the audit committee which is supposed to cover the most important issues during the audit, is already implemented in Germany. This is regulated in §171 (1) of the Stock Corporation Act (ActG) in Germany, as the auditor has to attend the annual balance sheet meeting with the management board and the supervisory board (Velte, 2014a).

Furthermore, the implemented long form report to the audit committee is said to be a "novelty on EU level", not however in Germany (KPMG, 2014a). This is due to §321 HGB, which already imposes such a report with quite specific requirements such as that §321 no.3 HGB requires the auditor to state his opinion whether or not the internal monitoring systems need

improvement. This report is, according to §321 no. 5 HGB, supposed to be handed over to the legal representatives of the company. If the company has a supervisory board, which appointed the auditor, the report has to be handed over to them but allowing the board of management to state their opinion before it is sent out (§321 no.5 HGB). Therefore, there is agreement that this part of the measure will not implement major changes in Germany.

Expectation Gap Cannot Be Closed

Furthermore, it is questionable if the goal of a reduced expectation gap is addressed properly by the audit reform. The EC claims to close the expectation gap by increasing information to external parties. “Even though content to the audit opinion is added, the most important information (auditor’s decisions on materiality or a discussion of the auditor regarding findings that question the future of the company) is only given to the audit committee. As this information is not provided to external addressees the expectation gap cannot be reduced” (Ruhnke, 2014, p.10).

Since the external report of the auditor has not been changed in a fashion that would allow more information for outsiders or shareholders, expert 6 concludes that “there are necessary topics such as the modification of the audit opinion, those are however, in my opinion, more attempts than real achievements”. When asking expert 5 whether the measure can increase audit quality he answered, “no, this regulation only hinders the supervisory board to do their work”. Expert 1 agrees as she cannot find anything in the directive or the regulation to close the expectation gap from a German perspective. Even though there was very little discussion on this topic, the measure seems however questionable.

5.4.4 Effects on Market Diversification (‘3C’)

Tendering Will Increase Diversification

Two experts support the EC’s argumentation that the tendering process will help to reduce the market concentration. Expert 3 says, “I see a change through the tendering, not because of the tendering itself but because the audit committee has to hand over their recommendation to the supervisory board. Therefore, they have to justify their recommendation which in my opinion will help that the mid-tier firms will at least get a chance due to a thorough look of the audit committee and thus gain a foothold”. Expert 9 echoes this as he finds that “the audit committee now has a crucial role in the tendering process due to their recommendations to the shareholder’s meeting and, therefore, they contribute to a more dynamic market”.

Tendering Is Not Able to Increase Diversification

Even though two experts see potential in the tendering process through the audit committee, the coding of the critical arguments resulted in a distinctively larger amount of arguments.

Expert 4 formulates it quite neutrally and states that “it is not possible to see an impact through this measure on the audit profession at this time”. KPMG (2014b) points out that “supervisory board and audit committee have to give thoughts to the audit execution before the actual tendering takes place, this however, is supposed to take place without any advice of the auditor” (p.5). However, especially this advice is needed as in-depth knowledge from the auditor is necessary to conduct a tendering (expert 1, 3 and 7). When considering the above arguments about the existing expertise in audit committees or supervisory boards this remark appears quite important and questions the ability of the audit committee to actually fulfill this requirement.

Furthermore, Hennrichs (2014) is convinced more concentration in the market can be expected, as “mid-tier audit companies will not participate at all in a tendering process for major corporations”. Even though, the audit committee during the tendering process is supposed to include mid-tier firms, Kaindl (2014) and experts 1, 5, 8, and 9 are convinced that this measure will not change anything in regard to major corporations. Their argument is that, even though, the audit committee should include mid-tier firms in the tendering process they are simply not able to audit complex companies due to their missing network and know-how. Furthermore, expert 5 claims that mid-tier audit companies will only be included in the selection process to fulfill legal requirements, and not because they have a real chance to audit major corporations. Both expert 8 and 9, point out during this discussion that there is no one besides the Big Four that can really handle an audit of the Deutsche Bank, expert 5 states the Volkswagen AG as such an example.

Overall, there seems to be quite a consensus that in the market of major corporations, nothing will change in regard to the effects of an enhanced audit committee on the market concentration of the Big Four. Expert 9 actually points out that “besides the fact that mid-tier companies cannot audit the Deutsche Bank, this would not impact audit quality in a positive way. That is quite a dilemma that you get. You want to increase the market diversity with an enhanced audit committee, but you have to watch out for the audit quality with this attempt”. He, therefore, underpins the question whether regulation aiming at a market diversification can actually be welcoming when audit quality might be weakened in exchange.

Nevertheless, this weak intervening process ‘3C’ can only be applied to major corporations. How and if changes occur in a size segment underneath those is not clear.

5.4.5 Effects of EU and National Oversight Coupled with the Enhanced Audit Committee

It is further argued that the enhanced role of the audit committee together with the strengthened national oversight might positively increase audit quality. Since this argument was mentioned when asking for the effect of the enhanced audit committee on audit quality, the authors argue that this argument should be discussed in this section because it indicates that the audit committee itself possibly will not bring about change on the objective of quality. Expert 8 points out the following:

The audit committee or the supervisory board needs to have expert knowledge which has already been the case since BilMoG [major accounting reform in Germany in 2009]. But what I think is important to know is that they have now true responsibilities towards the oversight, to show that they comply with the procedures. This is a major improvement. They have to state how they have assessed the quality of the audit and that the corporation between auditor and audit committee meets the requirements and facilitates an orderly financial accounting. Also, by explaining this procedure as well to the shareholder’s meeting the commitment of the audit committee will probably increase. Therefore, I hope, the audit committee and the auditor will truly increase their communication, which will increase audit quality. For sure.

Expert 1 echoes this dual measure impact on quality as he argues that now a certain liability, due to the formal expectations to the oversight, has been imposed on the audit committee, which in turn increases audit quality.

These experts point out that even though the audit committee alone might not be able to increase audit quality, it seems that the simultaneous increase of oversight might trigger this impact.

5.4.6 Implementing the Findings into the Analytical Framework

Overall, there is strong support for the measure as such. Nevertheless, for the case of Germany, the laws that are already in place seem to weaken the impact of the audit reform.

Furthermore, the missing definition of the ‘financial expert’ is perceived as a major problem of this measure, even though this part of the measure is welcomed as well.

The intervening process ‘3A’ cannot be discussed as the document analysis, as well as the interviewees, do not address this objective.

The intervening process ‘3B’ on the other hand, is faced with support and criticism. Support because it is argued that an increase in communication is important and welcomed. Criticism is raised because the current German rules hinder real changes in Germany. Furthermore, it was found that the measure of oversight coupled with the enhanced audit committee can contribute to an increase in audit quality. Nevertheless, the main problems to achieve this enhancement are the German laws that are in place already. Especially the expectation gap is argued not to be addressed by this measure.

Lastly, the intervening process ‘3C’ finds no support, as it is argued that the audit committee cannot help to diversify the market. As pointed out by expert 9 the main problem with this measure in regard to objective C is the negative side effect on quality.

The implemented findings of this section result in the following graph.

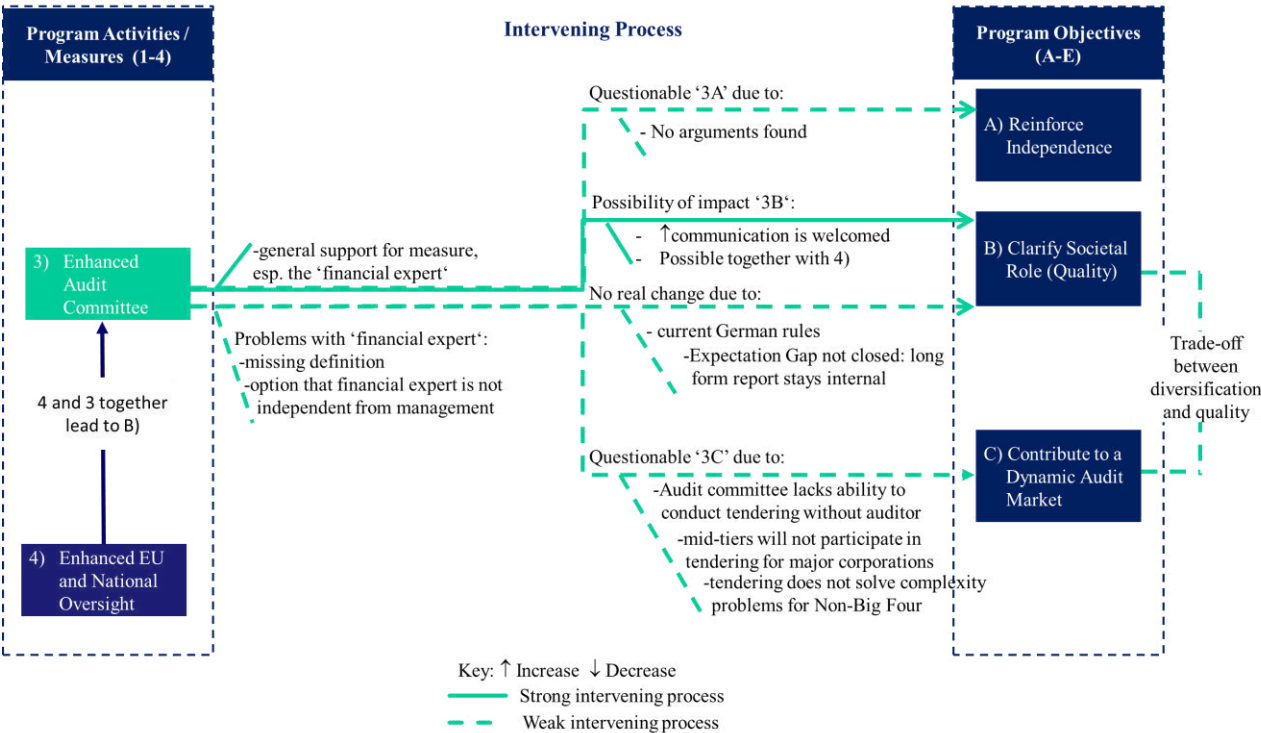


Figure 5.6 - Findings of the Enhanced Audit Committee Implemented into the Analytical Framework (Own Representation)

5.5 Impact of the Strengthened Public Oversight Authorities on the Corresponding Objectives

The strengthening of the public oversight is another measure which is expected to impact the German audit market. Regarding the analysis of this measure it is important to consider that there are two levels on which the oversight of auditors shall be enhanced. On the one hand, the Directive 2014/56/EU establishes uniform requirements which shall strengthen the public oversight authorities of the Member States and, on the other hand, the public oversight shall be increased on an EU level. Under the overall measure ‘enhancing oversight at national and European level’ summarizes several measures, such as “the designation of a single competent authority to bear ultimate responsibility for the audit public oversight system” (EC, 2014b), the strengthened sanctioning regime and the establishment of the CEAOB.

Since this study analyzes the reform from a German perspective, the focus of this section lies on the evaluation regarding the enhanced national oversight. Consequently, the enhanced European oversight is only addressed partly, with respect to the German stakeholders’ opinions on this issue. Therefore, the effects of this measure on independence are only discussed from a national point of view, while the facilitation of a cross-border provision is addressed only from a European perspective by considering the German stakeholders’ opinions. The other objectives are discussed in regard to both, the enhanced national and the European oversight.

Due to the unique two-tier system of German oversight, consisting of the WPK and APAK as described in section 5.1, the determination of a competent authority in Germany is particularly notable. Therefore, this section starts with a discussion about the construction of the national oversight in Germany, before evaluating the measure’s effects on the objectives.

5.5.1 Interpretation and Construction of the New National Oversight in Germany

The discussion about the determination of a competent authority is accompanied by the question of whether it is necessary to change the current German oversight system. Expert 4, who is a representative of the WPK and expert 8 claim that the current system is effective and thus, there is no need for a reform. Furthermore, the WPK (2012) argues that there is no proof for a lack of effectiveness or efficiency of the current system and, therefore, it is not necessary to change the existing oversight system. Contrary to this, expert 9, who is the Head of

APAK's Administration, identifies a need to reform the German oversight. He argues that "an enhancement of the oversight is necessary, since the competent authority should be not only responsible for the inspections, but also for direct and operative oversight of the auditors" (expert 9).

Among the German audit profession, the German regulators, and institutions, there is a discussion which institution shall be granted the ultimate responsibility for the German audit oversight in the future. The BMWi will announce at the end of June 2015 who will be responsible, but thus far there are the following possibilities. Currently, the APAK already has the ultimate responsibility regarding all auditor oversight activities (APAK, 2015, Online). However, presently the APAK only has the right to instruct the WPK and has no direct authority over auditors as it lacks public authority (APAK, 2015, Online). Consequently, all experts confirm that the APAK as it exists now cannot fulfill the requirements of the Directive 2014/56/EU. Therefore, the possibilities are to transform the APAK into a public corporation, to create a new authority responsible for the public oversight in Germany or to integrate this task into an existing authority such as the BaFin or BMWi (Lenz, 2015).

Whereas most interviewed experts predict that the APAK will be transferred from a commission to a public authority (expert 1, 3, 5, 8, 9; Giersberg, 2015), expert 7 and the German Institution for Mid-Tier Audit Companies have a very strong contradicting opinion (Verband für mittelständische Wirtschaftsprüfung, 2014b). Expert 7 claims that the APAK will definitively not be responsible, as the transformation into a new authority is too expensive and hence, he argues to integrate the oversight of auditors in Germany into an existing authority. This is supported by Wittsiepe (2015) and the German Institution for Mid-Tier Audit Companies (Verband für mittelständische Wirtschaftsprüfung, 2014b) as they claim that the APAK is not a public authority and does not fulfil the conditions set out by the Directive 2014/56/EU regarding the professional requirements of its members. To summarize, it is not yet clear who will be responsible for oversight in Germany and the BMWi's decision is necessary to clarify this aspect of the reform. It is recognizable that personal interests, especially of the affected institutions, such as the WPK and the APAK, but also of the German Institution for Mid-Tier Audit Companies, guide this power play. The German Institution for Mid-Tier Audit Companies has a severe interest that not a renewed APAK will be responsible for the oversight, as the institution expects to receive more sympathies when an authority is established within the ministries (expert 3).

5.5.2 Effects on Independence ('4A')

Independence from the Profession and Financial Independence

The discussion about the designation of a single competent authority in Germany has its origin in the long lasting debate about the APAK's alleged or de facto independence. Even though the addressed independence does not refer to auditor independence, the authors decided to code these arguments into this level because the assurance of auditors' independence requires an independent oversight (IDW, 2012).

Especially the German Institution for Mid-Tier Audit Companies argues that the current German auditor oversight commission is not independent, because most of the APAK's members have a Big Four background and still receive pensions from the Big Four (Gschrei, 2015). With this aspect in mind, the German Institution for Mid-Tier Audit Companies calls for a new staffing of the APAK, in case the APAK is in any form responsible for the oversight of German auditors in the future (Gschrei, 2015). Lenz (2015) also acknowledges that it is not only necessary to transfer the APAK into a public-law institution, but also to staff the oversight authority with full-time employees that are independent of the auditing profession.

The German Institution for Auditors (IDW 2012; IDW, 2011a; IDW, 2010) also agrees that for the effective functioning of public auditor oversight, whose role is to secure independence, it is key that the oversight body itself is independent of the profession. This view is also shared by expert 1, 2, 3, 6, 7, 8 and 9 who further stress that remuneration must be attractive in order to secure a financial independence from the profession. Consequently, in their opinions the real independence of the oversight authority must be granted in order to evaluate the independence of auditors and audit companies.

Contrary to this, expert 5 (a management board member of PwC) claims that the APAK is already the "most independent" commission as its members are voluntary individuals who are independent of the auditing profession. According to him, the discussion about the public oversight in Germany is just a "perception problem" and the restructuring of the oversight is a formal issue which contributes to a better comprehension of the German oversight system.

Professional Competences of the National Oversight Authority

Aside from being independent, it is also essential that the oversight function is exerted by personnel who have sufficient expertise (Ollrog, 2015). Expert 1, 3, 6, 8 and 9 also stress that the professional competencies are key to the success of the oversight body. However, expert 8 questions if the individuals with a background independent from the auditing profession are even able to assess the quality of audits. Consequently, it is a balancing act between the struggle of having independent individuals in the national oversight authority and having enough competence and knowledge to exert supervision.

Increased National Oversight Leads to a Reinforcement of Independence

For the evaluation of the audit reform, it is necessary to assess whether, according to the logic of the program, an increased national oversight can lead to more independence, as the EC argues. The balancing act between having enough competencies in the oversight body and being professionally and financially independent enough has to be coped with in order to follow the logic of a reinforced independence. While most of the analyzed documents and the interviewees do neither confess nor reject this intervening process, Gschrei (2015), the IDW (2011a) and expert 1 explicitly claim that increased audit oversight leads to more independence of the auditor from the auditee. However, whether this will be true can only be assessed after the implementation of the reform.

5.5.3 Effects on a Clarified Societal Role (Quality) ('4B')

Increased Competences on National Level

The business journalist Giersberg (2015) argues that the audit reform enhances the oversight authority and consequently, the audit inspection reports will gain more importance when selecting an audit company, which leads to an increased audit quality. Expert 6 states that the enhancement of the national oversight will lead to a change of behavior of the auditors as it increases the auditor's awareness that audit inspections might occur more often. This pressure might implicitly increase audit quality, but may also lead to more formalism and inefficiencies, as we see in the United States. Furthermore, expert 9 argues that the appointment of full-time personnel is a possible factor that increases audit quality, as financial self-interests are reduced. Expert 1 is also convinced of the positive intervening process '4B'.

Contrary to this, the WPK (2010) argues that state authorities and supervision does not "per se" contribute to audit quality, instead the principle "substance over form" should be

applicable. However, by allowing that Member States can transfer tasks from the ultimate authority to already established structures, the audit reform follows this principle (WPK, 2010). Furthermore, expert 3 questions the effect of enhanced national oversight on audit quality, as he believes that this measure will only increase the documentation of several processes and does not contribute to the understanding of the company, which would indeed improve audit quality.

Overall, the document analysis and the interviews reveal that there is no complete rejection of the intervening process '1B'. At the moment though, it is difficult to predict whether the enhanced role of the national oversight will increase audit quality.

Increased Competences and Know-How on EU Level

Due to the audit reform the CEAOB is established which is responsible to “ensure effective coordination of supervision of audit firms operating across the EU” (EC, 2014b). According to the EC, the CEAOB also contributes to an improved audit quality. The analysis of the documents did not include statements regarding an evaluation of the establishment of the CEAOB. Nevertheless, this might be a result of the applied selection criteria as those were limited to Germany and the CEAOB was not specifically searched for. Nevertheless, as the interviewees addressed this aspect of the audit reform, the authors decided to include this discussion. Therefore, in the following, only the opinions of the interviewed experts are reflected.

The experts 1, 2, 7 and 9 claim that the regulation is intensified and that the CEAOB will have know-how and competences which no institution had during the financial crisis. Hence, according to their point of view the increased know-how resulting from a better exchange of information and the improved competencies of the CEAOB can increase audit quality. Expert 2 further argues that the CEAOB will coordinate the work among national oversight bodies in a way that the CEAOB offers support in the application and development of inspection methods which increases audit quality on a European level. According to expert 9, the increased dialog among different parties, leads to a strengthened understanding of different issues, which over time increases audit quality. This is justified for example by the Common Audit Inspection Methodology, which has been established within the European Audit Inspection Group (EAIG) (expert 9). Moreover, expert 1 and 9 argue that the exchange of experiences among the CEAOB will generate synergies, which might enhance audit quality.

5.5.4 Effects on Market Diversification ('4C')

The EC further argues that by an increased monitoring of the market, the audit market will become more dynamic (EC, 2014b). However, Die Steuerberatung (2014), a business journal, argues that the extensive Member State options and the freedom of the states to organize the national oversight, “involve the risk that the interests of smaller and mid-tier” audit companies are not considered sufficiently. Therefore, it is important to actively involve smaller and mid-tier audit companies and institutions into the implementation process, since they are underrepresented most of the time (Die Steuerberatung, 2014).

In contrast, it is positively perceived that the changes in the oversight favors a debureaucratization as a differentiation between small and big audit companies is made in regard to quality controls (Verband für mittelständische Wirtschaftsprüfung, 2014a; Expert 3; Expert 7; Expert 8). This implies that smaller audit firms are not subject to quality controls anymore. Consequently, this differentiation encourages smaller auditors to offer auditing services (Verband für mittelständische Wirtschaftsprüfung, 2014a).

5.5.5 Effects on Cross-Border Provision ('4D')

According to the EC's logic, the enhanced European oversight will also positively affect the cross-border provision of auditing services, as harmonization and uniform monitoring increase due to this measure (Directive 2014/56/EU).

Expert 8 expects that the enhanced European oversight, with the CEAOB, will contribute to a harmonization within Europe, even though a full harmonization will not be reached as each country has its own peculiarities. According to expert 8 the harmonization by the CEAOB is beneficial because an exchange of information will harmonize practical aspects such as “how to determine materiality, or which limits for materiality are used in practice?”

Contrary to this, expert 3, the CEO of a small audit company, does not identify a need to harmonize the mid-tier sector, because smaller and mid-tier auditors will face language and legal barriers if they want to offer audits abroad. Furthermore, expert 3 indicates that harmonization is beneficial for bigger audit firms as it possibly reduces costs for them by providing the opportunity to exchange personnel in the company. However, expert 6 who is member of the management board of KPMG stresses that it is unrealistic to strive for excessive harmonization as “the national legislation is too inhomogeneous”. From his point of

view, cooperation among European countries via the CEAOB is useful, but national differences, in particular in corporate and business law, will in the foreseeable future require that national personnel are responsible for the audit. Similarly, expert 2 argues that too much harmonization would possibly destroy effective national oversight structures, which explains why Germany will apply the option to maintain the responsibility distribution between the Federal Government and the federal states. Expert 9 also welcomes the coordination function which is attributed to the CEAOB, and he further perceives it positively that special requirements, such as the sanction system, are still organized nationally. Expert 5, a PwC management board member, supports the decision to keep the sanction system at national level, as it is necessary to limit harmonization in order to respect national differences. Overall it becomes visible that the interviewed experts appreciate the cooperation and coordination exerted by the CEAOB, but they clearly refuse extensive harmonization.

5.5.6 Effects on Improved Supervision and Coordination ('4E')

The EC also draws the conclusion that enhanced national and European oversight contributes to an improved supervision and coordination. This is certainly a statement which everybody would approve of. However, some conditions must be met in order for this equation to hold true.

Conditions for Success On National Level

As already discussed in section 5.5.3, the increased competences which will be assigned to the national oversight authority might enhance audit quality. This intervening process is explicitly acknowledged by the stakeholders and might implicitly contribute to an improved supervision. Nevertheless, some conditions must be fulfilled to guarantee the success of the enhanced national oversight.

The IDW (2012), WPK (2015), as well as expert 1, 2 and 7, claim that the establishment of a new or renewed oversight system in Germany must secure that current oversight structures are changed sufficiently but not destroyed completely. Furthermore, the restructuring should not cause a loss of the functionality of the oversight, especially during the transition period (IDW, 2012; WPK, 2015, expert 2). On the one hand, when constructing a renewed oversight system, there is a risk that temporary legal loopholes evolve which must be avoided. On the other hand, duplicated examinations should be avoided which might arise when uncertainty about responsibilities exist among the involved parties (IDW, 2012; WPK, 2015, expert 2).

Exchange of Information between Member States through CEAOB

According to the Regulation (EU) 537/2014), the exchange of information between Member States will foster coordination and cooperation among supervisory authorities of third countries. Even though, an exchange of information among European audit authorities already exists, for example by means of the EAIG, expert 2, 5, 7 and 9 expect that exchange of information will increase and be more efficient due to the institutionalization of the exchange of information. Moreover, in comparison to the ESMA guidelines, expert 2 perceives the cooperation by exchanging information among parties that are currently conducting the oversight as advantageous because over-regulation is avoided. The document analysis also points out that KPMG (2014b) “welcomes the creation of a new Committee of European Audit Oversight Bodies” as it “will contribute to promoting greater consistency in the EU ... [and] greater transparency on broader systemic issues in the EU” (p.3).

As stated above, the increased exchange of information, also contributes to a better know-how of the authorities and hence, improves audit quality while simultaneously harmonizing audits in Europe to a certain degree (expert 1, 2, 7, 8 and 9). Consequently, the exchange of information not only contributes to an improved supervision and coordination, but also to audit quality and the facilitation of cross-border audit services.

5.5.7 Implementing the Findings into the Analytical Framework

Aside from the discussion about where the restructured oversight will be located within the German oversight system and the discussion about APAK’s independence in mind and appearance, all stakeholders agree that the financial and professional independence must be secured while simultaneously granting that the oversight body is equipped with sufficient expertise to conduct its function. If these conditions are met, the logic of the intervening process ‘4A’ can be affirmed; however, the future will demonstrate whether this is the case.

Regarding the second objective, it must be stressed that the competences of the national oversight are increased which might lead to an increase in audit quality. Nevertheless, thus far it is difficult to estimate if the audit quality increases but the possibility to increase audit quality through this measure is given. On a European level, it is argued that the increased know-how resulting from a better exchange of information, and the improved competences of the CEAOB might increase audit quality.

Furthermore, the consideration of the interests of small and medium-sized audit companies and the debureaucratization in favor of the non-Big Four audit companies are necessary steps to facilitate a more dynamic audit market.

The facilitation of cross-border provision of audit services which involves more harmonization among the countries of the EU is perceived with mixed feelings. On the one hand, the expected work of the CEAOB is appreciated which might lead to an increased exchange of useful, practical information. On the other hand, the stakeholders clearly oppose a full harmonization due to the national peculiarities of auditing.

Moreover, it is argued that on a national level the increased competences of the oversight body might improve supervision if duplication of tasks among different bodies is avoided and the current national oversight structures are not completely destroyed. Additionally, the exchange of information will not only improve audit quality and the facilitation of cross-border audit services, but also the supervision and coordination will be reinforced due to a more effective institutionalization.

Overall, it becomes visible that even though other arguments than those published by the EC were identified, the logic of this measure and its connection to the objectives was affirmed. In contrast to the first three measures, the opinions of the stakeholders regarding the concept of enhanced oversight are more optimistic. Furthermore, in comparison to the measures discussed before, it is evident that this measure does not impact the objectives in a way that they become conflicting, for example as it was the case for the external rotation and its contradicting effects on independence and quality.

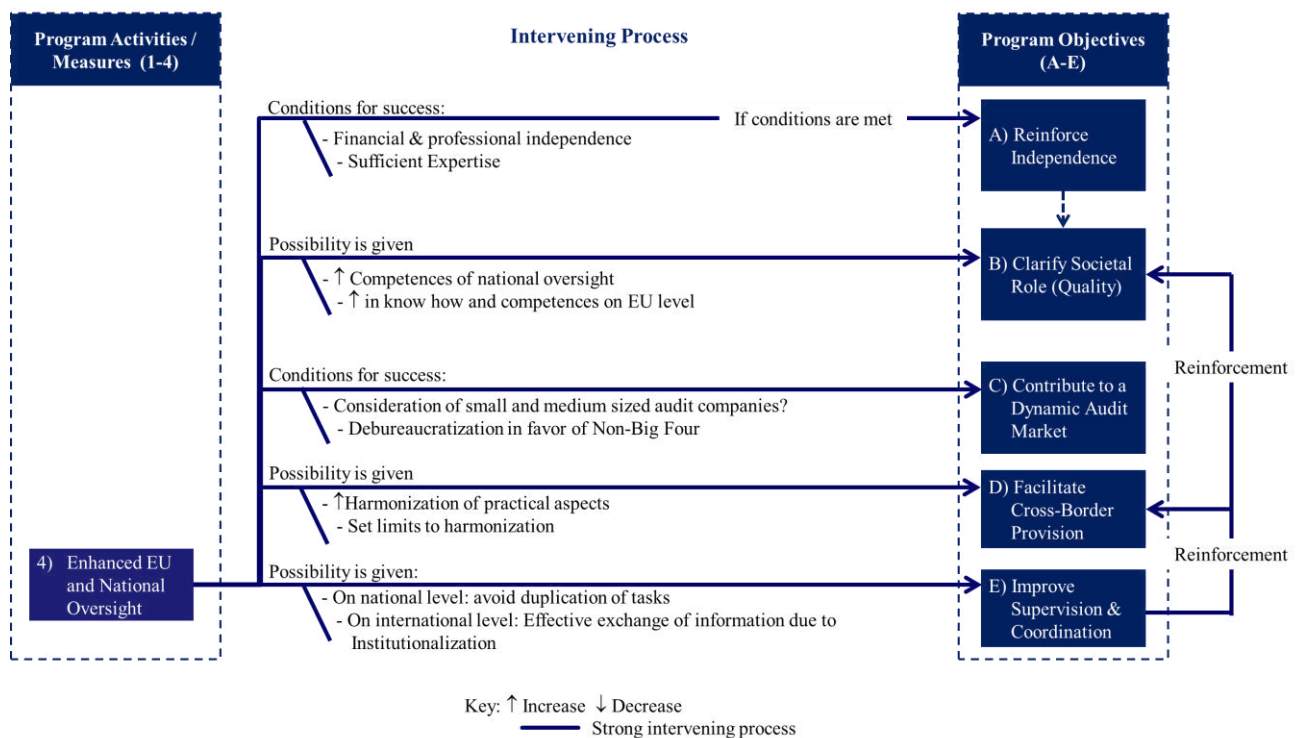


Figure 5.7 - Findings of Enhanced National and European Oversight Implemented into the Analytical Framework (Own Representation)

5.6 Summary of the Findings

In regard to the first measure, the analysis demonstrates that the effects of mandatory external rotation on independence, quality and market diversification are questionable and even contradicting (figure 5.3). Furthermore, a negative side effect of mandatory external rotation on the facilitation of cross-border provision of audit services and on the measure of an enhanced audit committee is identified. Most importantly though is the finding that the impacts of this measure cause a contradiction between reinforced independence and audit quality, which implies a trade-off between these objectives.

The evaluation of the second measure, the prohibition of NAS and NAS fee-limit, finds support for the EC's argued increase of independence in appearance (figure 5.6). Nevertheless, a major restriction of the impact of this measure in Germany is the already implemented laws which imply that no major changes might occur. Furthermore, it cannot be proven that this measure contributes to a reinforced independence or to a more dynamic audit market, as it is presumed by the EC. In addition, the measure's impacts result in a conflict between an increase in independence and a more dynamic audit market.

In contrast to the first two measures, the analysis of the documents and interviews reveals a general support for the ‘enhanced audit committee’ (figure 5.7). Nevertheless, the EC’s assumed intervening processes cannot be confirmed. However, the analysis finds that this measure coupled with an enhanced EU and national oversight might improve audit quality. Furthermore, again a trade-off is identified, in this case between audit quality and market diversification.

Contrary to the other three measures, the EC’s assumptions regarding the enhanced EU and national oversight and its corresponding objectives can be validated (figure 5.8). If particular conditions are met, it is probable that this measure can improve independence and contribute to a more dynamic audit market. Additionally, a major finding which is distinctive for this measure, is that the intervening process onto the objective of improved supervision and coordination simultaneously reinforces the facilitation of cross-border provisions of auditing services and audit quality.

Overall, the analysis points out that the intervening processes of the measures ‘external mandatory rotation’, the ‘prohibition and cap of NAS’, as well as the ‘enhancement of the audit committee’ are not in accordance with the EC’s intended objectives. The intervening processes of the measure, ‘enhancement of the EU and national oversight’, on the other hand, might accomplish the EC’s intended objectives. The study also pinpoints to interdependencies between measures and objectives, which seem not to be considered by the EC.

Another major finding is that in order to increase independence, audit quality fades into the background. Even though, it started out to be equally important for the EC, audit quality was found to fade into the background in favor of independence and market diversification (Wadewitz, 2013b; WPK, 2010; IDW, 2012; experts 1, 3, 4, 5, 6, 7, 9).

Especially revealed from the expert interviews is the observation that the 21 Member State options will cause a deharmonization and inhomogeneity between European countries. These options, therefore, provide 21*31 (28 EU Member States plus Norway, Liechtenstein and Iceland) possible combinations for the implementation of the audit reform. Expert 1, 5 and 6 regard this as patchwork of a reform which results in immense problems for audited companies, and expert 6, therefore, predicts that the audit reform cannot reach its goals.

6 Discussion

This chapter starts by pointing out the contradictions in the audit reform which impact society's perception about the audit reform. Afterwards, the applied concepts and theories of this study will be discussed. The chapter concludes with the limitations of the findings and future research.

6.1 Contradicting Concepts in the Audit Reform

The analysis already reveals that contradictions between and within the measures and objectives prevail. These contradictions are also mirrored in the underlying concepts of the audit reform, namely in the concepts of audit quality, independence, the expectation gap, and oversight, which are now further discussed.

The following quote sets the background for two lines of discussion: "The primary objective of the reform is to increase the quality of statutory audit. This means both enhancing statutory auditors' independence and providing investors and shareholders of audited entities with better and more detailed information via the audit report" (EC, 2014b, Online). This quote points out that the EC aims to improve audit quality by firstly enhancing auditors' independence and secondly, by closing the expectation gap for shareholders.

Following the first line of argumentation, the EC sets up the equation that every measure which enhances auditor's independence directly increases audit quality. The findings in chapter four demonstrate that this equation is present in the audit reform. Nevertheless, this simple assumption does not reflect the complexities that audit quality involves. Hence, the authors criticize this approach of the EC.

According to the IAASB's (2014) "Framework for Audit Quality: Key Elements that create an Environment for Audit Quality", audit quality contains the elements "inputs, processes, outputs, interactions and contextual factors" (p.3). These five elements actually contain 15 sub-elements that constitute "an environment which maximizes the likelihood that quality audits are performed on a consistent basis" (IAASB, 2014, p.3; Appendix G). When considering this complex framework, it becomes visible that the EC's simple equation for audit quality is doubtful. The findings of this study confirm this complexity in regard to the relation between independence and audit quality. The analysis of 'mandatory external

rotation' demonstrates that the effects of this measure lead to contradicting impacts on the objectives as the effects of rotation result in a trade-off between independence and audit quality (figure 5.3). This indicates that audit quality is a complex topic and that the audit reform lacks a focus on specific elements or indicators of audit quality. Therefore, the reform tries to achieve a complex objective with relatively simple measures. Considering that the IAASB with the support of IFAC needed more than four years to establish a framework for audit quality, underpins this complexity (IFAC, 2015).

Furthermore, the study illustrates that independence in the audit reform is addressed on different levels and not just on the auditor level as the EC strives for in the quote above (EC, 2014b). As seen in chapter five, the measures consider the auditor's, the audit firm's, the audit committee's and the oversight's independence. Therefore, the audit reform does not draw a clear line about the boundaries between each of the various approaches to independence. It appears that the EC wants to improve audit quality at all costs by using every different type of independence. Consequently, it might be argued that the audit reform misuses concepts which lead to confusion in the effects of the different concepts of independence. When analyzing the audit reform, the authors experienced this problem of incoherent labeling of independence. As a result, the analysis was adapted in order to take the different concepts of independence into account. Thus, the authors considered whether or not the found arguments address a type of independence that reinforces auditor independence. Therefore, the audit committee's independence is not considered whereas the oversight independence is linked to auditor's independence and hence, included.

The above illustrates the contradictions in the composition of the audit reform. As pointed out by the public interest theory, the financial crisis led to a demand of regulation in society. Since the financial crisis 2007-08 did not only affect institutional investors but also small investors and pension fund holders, a wide group of society was impacted by the financial crisis. Therefore, according to the public interest theory the general society should welcome the audit reform. In contrast, the findings of this study reveal that the professionals, who understand the complex constructions of independence and audit quality, reasonably question this regulatory attempt. The authors argue that the general society might perceive audits to be improved simply because of the discussion around the audit reform. However, the authors recognize that the general society cannot fully comprehend these immensely complex

theoretical foundations. Hence, the general society might overestimate the restricted impacts of the audit reform or underestimate the involved problems.

The second argument arising out of the above-mentioned quote, refers to an increase in audit quality through “better and more detailed information” for stakeholders, which according to the EC reduces the ‘expectation gap’ (EC, 2014b, Online). Connecting to the discussion above, the authors find that the EC simplifies the solution to reduce the expectation gap. As found in chapter five the assumed impact of the enhanced role of the audit committee does not contribute to a reduction of this expectation gap. Due to the shift of information from the planned external communication to the internal communication (between auditor and audit committee), the goal to clarify the societal role of auditors is not achieved. The authors found strong incomprehension in regard to this measure of the audit reform as an enhanced audit report would have been a major improvement in regard to the expectation gap. Therefore, the authors question the impact of this part of the audit reform on audit quality. It appears that the EC again underestimates the complexities of the expectation gap. On the one hand, society has increased expectations regarding the information from the auditor, as the audit reform makes the promise to provide more information. On the other hand, the regulation does not improve the information given in an extended audit opinion, as the duties of the auditors to external addressees are unchanged. Consequently, the ‘reasonableness gap’ is further expanded due to the increased expectations of the general society towards audits and the unchanged duties of the auditor (Hassink et al., 2009). In order to actually reduce the expectation gap, the duties of the auditor should have been increased not only internally (Hassink et al., 2009).

Furthermore, this study surprisingly reveals that the measure ‘enhanced national and EU oversight’ is highly welcomed by the stakeholders. The authors expected that there would be high criticism against oversight because oversight involves the risk of overregulation and standardization. However, oversight seems to be a measure that can be easily implemented but the effects and its real efficiency will only become visible in the long-term. Therefore, it can be critically asked if this measure is only a symbolic change. Applying this thought to the case of Germany which is a code law country, the enhancement of oversight might have a strong rhetorical power, as German regulation is detailed and intense (The Hofstede Center, n.d.). As a result, the perceptions of the German Society of the audit reform might be more positive than the actual improvements. Furthermore, temporal differences might occur as the

perceptions of the German society are now positively influenced but the impact of an enhanced oversight might only come later. Moreover, the findings reveal that EU and national regulations clash and lead to tensions. For Germany, the audit reform implies that the oversight structure has to be changed, but there is no evidence that this is workable. Beyond that the authors question if it is reasonable to restructure the current well-functioning oversight system in Germany which evolved within the distinct German context. Consequently, the dissonance within European and national level confirms the complexities of multilevel regulation which is in accordance with Chowdhury and Wessel (2012).

Overall, the discussion illustrates that even though the audit reform aims to manage current problems of auditing which cause negative effects on society, the effects of the measures and the contradictions within the composition of the audit reform does not augur well for societal problems.

6.2 Discussion of the Program Impact Theory and the Problematics of Government

Besides some modifications of the program impact theory, this study also confirms the assumptions of the program impact theory and the model of problematics of government by Rose and Miller (1992), which will be discussed in the following.

The study supports that the program impact theory represents a suitable and structured framework to analyze complex correlations in programs. This allows a structured approach which provides deeper insights into the audit reform. The authors argue that without this approach findings could have stayed unrevealed because the theory provides a framework that allows keeping track of the bigger picture. Especially during the coding of the documents and interviews, as well as during the execution of the expert interviews, the program impact theory provided necessary structure to guide the authors through the analysis. Structuring 93 pages of extracted arguments into the right category was extremely challenging and only possible due to the framework provided by the program impact theory.

Additionally, the study confirms that the intervening processes are a crucial element of the program impact theory as the analysis is based on these assumptions. This was already pointed out by Rossi, Freeman and Lipsey (2004). Nevertheless, it is essential to acknowledge that a categorization for these intervening processes is required. The problem with categorizations is that it contains the risk of making statistic and deterministic decisions. Even

though the authors took a great effort to secure objectivity, other researchers could categorize differently. Therefore, the findings might be limited in the possibility to deduce generalizations.

The findings further demonstrate that the program impact theory provides only a pure evaluation of the current status. This implies that this theory does not directly provide suggestions for improvements of the program. Hence, the program impact theory only facilitates deconstructive critique as it only points out where improvements are needed and not how improvements can be made. Nevertheless, as this study points out the intervening processes that do not function in the assumed way, the study helps to avoid inadequate measures in future programs. Furthermore, by indicating the intervening processes that do function, the study allows to focus on justified and effective measures that might reach the intended objectives in future programs. Hence, it is possible to deduce policy implications by applying the program impact theory as it reveals strengths and limitations of the logic of the program which can be considered in future reforms.

The study also affirms the concept of complexity in regulation as pointed out in section 6.1. Besides the practical implications for society, complexity in regulation also involves theoretical considerations. Due to the problems that arise from the complexity of the audit reform, and coupled with the problem of multilevel regulation, the authors have extended the program impact theory. In its initial form, the program impact theory only uses unlabeled arrows (Weiss, 1972) to show the connections between the measures and objectives. Therefore, the authors expand the simplicity of the program impact theory with the objective to reflect the complexity of the audit reform. For this purpose the authors labeled the arrows and differentiated between the supporting and non-supporting intervening processes by using either straight or dotted lines. Furthermore, the differentiation is strengthened through arguments presented in bullet points underneath the arrows. This represents an extension of the program impact theory and allows further insights into the studied subject, in this case the audit reform.

The problematics of government made the authors aware that interdependencies e.g. tradeoffs can be expected within the objectives of the audit reform. Consequently, the authors took great care to capture these interdependencies and implement them into the analytical framework. Hence, this study confirms these interdependencies in regulation. Unexpectedly, the authors also found interdependencies within the measures, which have been implemented

in the analytical framework as well. Therefore, the initial idea to capture cause relations became more dynamic during the process of evaluation. The acknowledgment of these interdependencies represents a development of the program impact theory.

Additionally, the term “rule at a distance” (Rose & Miller, 1991, p.184) proposed in problematics of government can be affirmed. This term refers to the self-interest of each actor involved in regulation which results in options for directives and regulations and constitutes shifts in the measures throughout their development. Consequently, the audit reform is immensely complex and imbeds further problematics of government, which is visible in this analysis. Especially the Member State options represent a major patchwork of regulation which affirms complexities of regulation. Furthermore, the study substantiates that multilevel regulation might lead to inconclusive regulations. During the analysis of mandatory external rotation, an argument re-emerged which mirrors this inconclusiveness. This refers to the so-called ‘short runners’ which means that those companies that changed their auditor most recently are obliged to rotate their auditors first (Regulation (EU) 537/2014, L158/112). Both the document analysis and the interviews consider this as absurd. The compromise dialog, which takes place between the national and EU level actors, might be the cause for this incomprehensible regulation and reinforces the concept of multilevel regulation.

Furthermore, as pointed out by Rose and Miller (1992), regulation is a “problematizing activity” (p.181) because addressing one problem to solve societal issues usually triggers other problems. As the EC wants to prevent another financial crisis, the EC problematizes reality, which might have a negative impact on other societal problems resulting in another wave of regulation. Since this paper finds the impact of the implemented measures restricted in their success to address the objectives, the study indicates the possibility of further regulatory activity in this area. Therefore, the study affirms Rose and Miller’s (1992) ‘problematizing activities’. Nevertheless, as pointed out by Rose and Miller (1992) “we do not live in a governed world so much as a world traversed by the ‘will to govern’, fuelled by the constant registration of ‘failure’, the discrepancy between ambition and outcome, and the constant injunction to do better next time” (p.191). Even though, this paper indicates that the measures of the audit reform are mostly not in accordance with the EC’s intended objectives, it has to be acknowledged that this situation might to a certain extent be a natural aspect of regulation. A perfectly working process between measures and objectives might, therefore, be illusory.

6.3 Limitations of the Findings and Future Research

The study provides evidence in which way the measures of the audit reform are in accordance with the EC's intended objectives in Germany. Besides the methodological limitations discussed in chapter 3.5, the German setting is characterized by unique factors which limit the transferability of the study to other EU countries. Especially the findings regarding the measure 'prohibition and cap of NAS' appears to be quite distinct for Germany. Most of the new aspects of this measure are already implemented in current German law and hence, the results are based on this unique situation. Therefore, it might be complicated to generalize the results of this measure.

Nevertheless, the limitation of a single case study presents an area of possible future research by applying the concept of this study to other EU Member States. This would reveal major differences in the logic of the audit reform occurring through special customs and regulations in the area of auditing in different Member States. The authors anticipate that especially for the analysis of the measure 'prohibition and cap of NAS' studies settled in other countries will find quite deviated effects of NAS due to the different contextual background of each country.

Another factor that restricts the results is the fact that the impact of the audit reform is very special in Germany due to the so-called Mittelstand (mid-sized companies). From roughly 3.7 million German companies in 2013, 99% belong to the German Mittelstand and contribute 55% to the gross domestic product (BMW, 2014). As only 1,600 companies fall under the definition of a PIE in Germany (WPK, 2014a), it can be argued that the reform's impact in Germany is limited. However, it must be recognized that the DAX30 companies produced roughly the same turnover as the whole Mittelstand (BMW, 2014). Therefore, the impact of PIEs is still crucial to the German economy and, hence, this study is valuable.

Moreover, the conduction of the interviews represents a limitation of the findings. As appendix C points out, the authors chose to pose the questions in a quite general manner at first. This was done in order to not bias the interviewees in their responses. Nonetheless, this contains the risk that the interpretations of the answers appear to be subjective. In order to assure the rigor of the results, the authors used interpreting questions, asking specifically about the interviewees' assumptions and assessment of the examined intervening processes.

Further, the authors have taken into account that the nine interviewees selected on the basis of their organizational background and knowledge of the audit reform, present subjective opinions which might present a lack of transferability of the study's findings. In avoidance of this problem, the analysis is based on a document analysis and interviews as this iterative process contributes to objectivity. Furthermore, during the interviews, as well as the document analysis, the authors were confronted with some exaggerated statements. If exaggerated statements are used in this paper, the authors indicate the organizational background of those interviewees in order to address this limitation.

Another limitation that is recognized by the authors is caused by the restricted time frame of this study. The authors acknowledge that if the document analysis had been finished prior to the interviews, the discussion with the interviewees might have been more constructive. As the document analysis is not extensive in regard to some intervening processes, the authors acknowledge that if this finding had been available prior to the interviews, the authors would have facilitated an interview guidance focusing on these topics. This might have resulted in a compelling discussion.

The currentness of the topic represents another caveat since the outcome of the program will only be discernable in the years following the actual implementation. This would imply that this study can only represent a prediction. Nevertheless, as this study does not focus on future outcomes but on the logic of the audit reform, the program impact theory facilitates evaluating this logic. This seems to be a reasonable investigation as the high resonance of the contacted interview partners and their importance in their organizational setting support the author's approach to the evaluation of the audit reform.

However, the authors highly suggest an extension of this study when the program has actually been applied. Therefore, future researchers may conduct an outcome evaluation which "answers questions about program outcomes" (Rossi, Freeman & Lipsey, 2004, p.71) after the reform has been implemented and hence, represents the subsequent step of the program impact theory. It would be particularly interesting to compare those findings with the findings of this study. Furthermore, regarding the objective to contribute to a more dynamic audit market, it is feasible to conduct quantitative analyses in order to reveal the impact of the audit reform onto this objective.

Furthermore, the authors acknowledge that if the intervening processes had been analyzed separately for each stakeholder group, the findings of this study might have been different. A separate analysis for each stakeholder group is, however, only possible if the sample size is increased significantly. Questionable though is whether this separation actually leads to meaningful findings as the bigger picture cannot be captured.

Furthermore, a limitation of the program impact theory, which applies especially to this study, is the choice of considered measures in the analysis. The authors are aware that the overall findings of this study depend on the chosen measures. For example, if the authors had chosen only the measures ‘enhanced audit committee’ and ‘enhanced EU and national oversight’, the overall finding of this study would have pointed to a less negative, or even neutral, correlation between the reform’s measures and the intended objectives. Additionally, the authors recognize that positive side effects might not be found due to the selection of the analyzed measures. For example, the jointly positive impact of the enhanced EU and national oversight and the enhanced audit committee on audit quality would have been missed if one measure was removed from the analysis. Therefore, the authors acknowledge that other positive or negative side-effects and interdependencies are not revealed due to the limitation to four measures. Moreover, external disturbing factors that might influence the intervening processes have not been considered in this study. As the authors had to respond to the complexity of the audit reform by limiting the evaluated measures to four, the above limitations apply. Nevertheless, this limitation also provides a possible future research area. Future researchers could include other measures to their evaluation in order to extend this study.

Another possible future research in the German audit market, but possibly also for other markets, can also be suggested. A major recurring argument in this study against a more dynamic audit market is that non-Big Four audit companies do not possess a sufficient global network to conduct audits for major corporations. Therefore, a study comparing global networks of international companies with the presence of mid-tier audit companies in these countries could show if the objective of a diversified audit market is actually reasonable. Such a study would majorly contribute to the discussion of market diversification in the audit market which then can contribute with vital policy implications.

7 Conclusion

“Any change, even a change for the better, is always accompanied by drawbacks and discomforts.” Arnold Bennett (1867-1931)

This study mirrors the German perspective in which way the measures of the EU audit reform are in accordance with the EC’s intended measures by applying the program impact theory. The analysis demonstrates that most of the EC’s assumed intervening processes cannot be affirmed, which points to a limit of the future impact of the audit reform in Germany. Nevertheless, it becomes visible that some aspects of measures are welcomed by various stakeholders in Germany, which indicates that the EC’s attempt to further regulate auditing might be justified. The study also stresses the uniqueness of customs and laws for auditing in the EU Member States. Consequently, the authors question if it is meaningful to strive for harmonization in audit regulation with a reform that addresses this goal besides other objectives. It seems that if harmonization is the main goal, it would be necessary to abandon national audit customs and laws. Whether this alternative is then the silver bullet is, however, questionable itself.

Besides the empirical implications of this study, it contributes to theory by applying the analytical framework of the program impact theory to a current and highly influential topic. Furthermore, the application of this theory to audit regulation represents a new research area, examined through the lens of this theory. Moreover, the study extends and improves the program impact theory as it incorporates additional considerations from the problematics of government.

In conclusion, the authors are surprised how politicians can conduct a reform that involves major contradictions in the effects of the audit reform. The effects of some measures lack empirical evidence or show strong negative side-effects on other measures or objectives. Nevertheless, these measures are still applied in the audit reform, which is incomprehensible to the authors. Therefore, the authors have the impression that regulation of auditing might be trapped in a dilemma. On the one hand, politicians seem to lack the relevant knowledge of complex concepts in auditing which is supported by the EC’s above-discussed concept of audit quality. On the other hand, regulation should not be conducted by the regulated themselves who have the needed knowledge. This dilemma results in a compromise reform which is, therefore, restricted in its impacts.

Even though the findings might imply a limited correlation between the audit reform's measures and objectives, the quote mentioned above stresses a reflective consideration of those evaluations. Regulation is a process which strives for improvements, but accomplishments might be limited due to the complex, regulative process in the EU. Nevertheless, the possibility of failure should not prevent the attempt to aim at improvements of current problems. Therefore, the identified achievements should at least be acknowledged.

References

- AOC (2012). Abschlussprüferaufsichtskommission nimmt zu den Vorschlägen der EU-Kommission zur Regulierung der Abschlussprüfung Stellung [pdf], Available at: http://www.apak-aoc.de/images/pdf/APAK-AOC--Presseinformation_Stellungnahme_Regulierungsvorschlaege_EU-Kommission_Abschlusspruefung.pdf [Accessed 8 May 2015].
- AOC (2015). Eckpunktepapier zur Novelle der Wirtschaftsprüferordnung Stellungnahme der APAK, Available Online: <http://www.bmwi.de/BMWi/Redaktion/PDF/Stellungnahmen/Wirtschaftspr%C3%BCferordnung/abschlussprueferkommission-apak,property=pdf,bereich=bmwi2012,sprache=de,rwb=true.pdf> [Accessed 8 May 2015].
- Apa (2014). Lücken in neuen Regeln für die Abschlussprüfung, *Wirtschaftsblatt*, 16 April, p.3.
- Audit Committee Institute e.V. (2014). *Audit Committee Quarterly*, das magazin für corporate governance, II 2014, Available Online: <http://www.audit-committee-institute.de/24564.htm> [Accessed 27 March 2015].
- Abschlussprüferaufsichtskommission (APAK) (2013). Tätigkeitsbericht der Abschlussprüfer-Aufsichtskommission, Available Online: <http://www.apak-aoc.de/index.php/de/publikationen/presseinformationen> [Accessed 27 March 2015].
- APAK (2014). The System of Auditor Oversight in Germany, Available Online: <http://www.apak-aoc.de/index.php/en/about-aoc/auditor-oversight-in-germany/chart> [Accessed 9 April 2015].
- APAK (2015). AbschlussPrüferAufsichtKommission (APAK), Available Online: <http://www.apak-aoc.de/index.php/en/> [Accessed 9 April 2015].
- Barriball, L.K., & While, A. (1994). Collecting Data using a semi-structured interview: a discussion paper, *Journal of advanced nursing*, 19(2), 328-335.
- Bauer, U.M. (2015). Mehr Bewegung im Prüfermarkt, Auswirkungen der Neuregelung der Jahresabschlussprüfung in der EU, *GoingPublic Magazin*, March 2015, pp.44-45.
- BDO (2014). SONDERNEWSLETTER REFORM DER ABSCHLUSSPRÜFUNG [pdf], Available at: http://www.bdo.de/dateien/user_upload/pdf_publikationen/fachmitteilungen/WP-Newsletter/2014/SONDERNEWSLETTER_Reform.pdf [Accessed 8 May 2015]

- Betriebs Berater (2014) Mit den Abschlussprüfern hatte der im Februar 2010 ernannte EU Kommissar für Binnenmarkt und Dienstleistungen, *BetriebsBerater*, no.30, p.1.
- Black, J. (2012). Paradoxes and Failures: ‘New Governance’ Techniques and the Financial Crisis, *The Modern Law Review*, 75: 1037–1063.
- Boecker, C. Hartmann, S. & Zwirner, C. (2013). Preis und Konzentration auf dem Abschlussprüfungsmarkt Überlegungen vor dem Hintergrund der Qualität von Abschlussprüfungen, *KoR*, no.3, p.156-162.
- Bogner, A., Littig, B. & Menz, W. (2009). *Interviewing Experts*, Houndmills: Palgrave Macmillan.
- Börsen Zeitung (2013). EU lässt Wirtschaftsprüfer rotieren, *Börsen Zeitung*, 18 December, p.11.
- Bryman, A. & Bell, E. (2007). *Business Research Methods*, n.p.: Oxford : Oxford University Press, cop. 2007, Library catalogue (Lovisa), EBSCOhost, viewed 30 March 2015.
- Buhleier, C.; Niehues, M. & Splinter, S. (2014a). Neuer Herausforderungen für Unternehmen, Aufsichtsräte und Abschlussprüfer [pdf], *Corporate Governance Forum*. Sonderausgabe zur Reform der Abschlussprüfung, Deloitte Center für Corporate Governance Sonderausgabe 11/2014, Available at: http://www2.deloitte.com/content/dam/Deloitte/de/Documents/governance-risk-compliance/GRC-CGF_SA_2014_safe.pdf [Accessed 8 May 2015].
- Buhleier, C.; Niehues, M. & Splinter, S. (2014b). EU-Reform der Abschlussprüfung und Auswirkungen auf den Aufsichtsrat [pdf], *Bundesanzeigerverlag Board 4/2014* Available at: <http://www.bundesanzeiger-verlag.de/fileadmin/Betrifft-Unternehmen/Arbeitshilfen/Fachbeitraege/Abschlusspr%C3%BCfungsreform.pdf> [Accessed 8 May 2015].
- Bundeministerium für Justiz und Verbraucherschutz (BMJV) BilReg (2004). Gesetz zur Einführung internationaler Rechnungslegungsstandards und zur Sicherung der Qualität der Abschlussprüfung (Bilanzrechtsreformgesetz – BilReG) Available Online: http://www.bmjv.de/SharedDocs/Downloads/DE/pdfs/Gesetze/Gesetz_zur_Einfuehrung_internationaler_Rechnungslegungsstandards_und_zur_Sicherung_der_Qualitaet_der_Abschulsspruefung.pdf?__blob=publicationFile [Accessed 3 May 2015].
- BMJV (2015). Referentenentwurf des Bundesministeriums der Justiz und für Verbraucherschutz Entwurf eines Gesetzes zur Umsetzung der prüfungsbezogenen Regelungen der Richtlinie 2014/56/EU sowie zur Ausführung der entsprechenden Vorgaben der Verordnung (EU) Nr. 537/2014 im Hinblick auf die Abschlussprüfung bei Unternehmen von öffentlichem Interesse [pdf], Available Online: http://www.wpk.de/uploads/tx_news/BMJV_Referentenentwurf_AReG.pdf [Accessed 2 May 2015].

- Bundesministerium für Wirtschaft und Energie (BMWi) (2014). German Mittelstand: Motor der deutschen Wirtschaft. Zahlen und Fakten zu deutschen mittelständischen Unternehmen. Available Online: <http://www.bmwi.de/BMWi/Redaktion/PDF/Publikationen/factbook-german-mittelstand,property=pdf,bereich=bmwi2012,sprache=de,rwb=true.pdf> [Accessed 15 May 2015].
- Bundesministerium für Wirtschaft und Energie (2015). Eckpunktepapier zur Novelle der Wirtschaftsprüferordnung, Available Online: http://www.wpk.de/uploads/tx_news/BMWi-Eckpunkte_Umsetzung_EU-Abschlussprueferreform.pdf [Accessed 9 April 2015].
- Chowdhury, N. & Wessel, A. (2012). Conceptualising Multilevel Regulation in the EU: A Legal Translation of Multilevel Governance?, *European Law Journal*, Vol.18, No.3, May, pp.335-357.
- Clausen, Sven (2011). Prüfer zerschlagen ist zu plump. Die EU hat recht: Wirtschaftsprüfer müssen besser kontrolliert werden. Ihr Vorschlag geht aber zu weit, *Financial Times Deutschland*, 4 October 2011, p.25.
- Curtis, B. (1995). Taking the state back out: Rose and Miller on political power, *The British Journal of Sociology*, December, Vol.46, No.4, pp.575-589.
- Deegan, C. (2011). *Financial Accounting Theory*, Maidenhead: Mc Graw-Hill Education.
- Deloitte (2012a). Informationen für Aufsichtsrat [pdf]. Deloitte Center für Corporate Governance, Sonderausgabe Januar 2012, Available at: <http://www2.deloitte.com/content/dam/Deloitte/de/Documents/governance-risk-compliance/GRC-Newsletter-CGF-Sonderausgabe-2012-deutsch.pdf> [Accessed 8 May 2015].
- Deloitte (2012b). Deloitte Audit Reform Briefing: Unprecedented reform proposed for the EU audit market [pdf], Available at: http://www.deloitte.com/assets/Dcom-Global/Local%20Assets/Documents/Audit/dttl_DeloitteAuditReform_final.PDF [Accessed 8 May 2015].
- Deloitte (2013). Informationen für Aufsichtsrat und Prüfungsausschuss [pdf] , Deloitte Center für Corporate Governance Forum, 1/2013, Available at: <http://www2.deloitte.com/content/dam/Deloitte/de/Documents/governance-risk-compliance/GRC-Newsletter-CGF-1-2013-deutsch.pdf> [Accessed 8 May 2015].
- Der Aufsichtsrat (2014a). Gewandelter Aufsichtsrat und Prüfungsfremde Leistungen des Abschlussprüfers, *Der Aufsichtsrat*, March, p.47.
- Der Aufsichtsrat (2014b). WP-Markt in Bewegung, *Der Aufsichtsrat*, November, p.167.

- Der Betrieb (2015). Der Referentenentwurf für ein Abschlussprüfungsreformgesetz – Viva Mitgliedstaatenwahlrecht, *Der Betrieb*, 10 April, p.M5.
- Deutscher Corporate Governance Kode (DCGK) (2014). http://www.dcgk.de/files/dcgk/usercontent/en/download/code/E-CorpGov_2014.pdf [Accessed 28 March 2015].
- Deutsches Rechnungslegungs Standards Committee (2015). Organisation and Objectives, Available Online: http://www.drsc.de/service/ueber_uns/ziele/index_en.php [Accessed 9 April 2015].
- Die Steuerberatung (2014). Neuer europäischer Rechtsrahmen für Abschlussprüfer veröffentlicht – DStV begleitet Umsetzung, *Die Steuerberatung*, 1 July, no.7-8, pp.329-330.
- Directive 2014/56/EU (2014). DIRECTIVE 2014/56/EU OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 16 April 2014 amending Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts, 27 May, Available Online: <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014L0056&from=EN> [Accessed 27 March 2015].
- Dobler, M. (2014). Auditor-provided non-audit services in listed and private family firms, *Managerial Auditing Journal*, Vol. 29, Iss 5, pp. 427 – 454.
- Dobler, M, Dobler, S., & Fichtl, N. (2013). Beratung durch Abschlussprüfer in deutschen Familienunternehmen, *Der Aufsichtsrat*, June-August, pp.102-103.
- Donaldson, S. I., & Lipsey, M. W. (2006). Roles for theory in contemporary evaluation practice: Developing practical knowledge. *The handbook of evaluation: Policies, programs, and practices*, pp.56-75.
- Easterby-Smith, M., Thorpe, R. & Jackson, P. (2012). *Management Research*, n.p.: Thousand Oaks, Calif.: SAGE Publications, 2012, Library catalogue (Lovisa), EBSCOhost, viewed 30 March 2015.
- Elo, S. & Kynga S H. (2008). The qualitative content analysis process, *Journal of Advanced Nursing*, Vol. 62, No. 1, pp. 107–115.
- European Commission (EC) (2008). Structure of Public Auditor Oversight in Germany, Available Online: http://ec.europa.eu/internal_market/auditing/docs/reactions/10122008_marten_en.pdf [Accessed 9 April 2015].
- EC (2010a). Green Paper. Audit Policy: Lessons from the Crisis, 13 October 2010, Available Online:

- http://ec.europa.eu/internal_market/consultations/docs/2010/audit/green_paper_audit_en.pdf [Accessed 27 March 2015].
- EC (2010b). European Commission Green Paper on Audit Policy – frequently asked questions, 13 October, Available Online: http://europa.eu/rapid/press-release_MEMO-10-487_en.htm?locale=en [Accessed 27 March 2015].
- EC (2011). Reforming the Audit Market - Frequently Asked Questions, 30 November 2011, Available Online: http://europa.eu/rapid/press-release_MEMO-11-856_en.htm?locale=en [Accessed 17 April 2015].
- EC Proposal Directive (2011). Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts, 30 November, Available Online: http://ec.europa.eu/internal_market/auditing/docs/reform/directive_en.pdf [Accessed 27 March 2015].
- EC Proposal Regulation (2011). Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on specific requirements regarding statutory audit of public-interest entities, 30 November, Available Online: http://ec.europa.eu/internal_market/auditing/docs/reform/regulation_en.pdf [Accessed 27 March 2015].
- EC (2013). Memo, Commissioner Michel Barnier welcomes provisional agreement in trilogue on the reform of the audit sector, 17 December 2013, Available Online: http://europa.eu/rapid/press-release_MEMO-13-1171_en.htm [Accessed 27 March 2015].
- EC (2014a). Statement, European Parliament backs Commission proposals on new rules to improve the quality of statutory audit, 3 April 2014, Available Online: http://europa.eu/rapid/press-release_STATEMENT-14-104_en.htm [Accessed 27 March 2015].
- EC (2014b). Reform of the EU Statutory Audit Market - Frequently Asked Questions (updated version), 16 June 2014, Available Online: http://europa.eu/rapid/press-release_MEMO-14-427_en.htm?locale=en [Accessed 2 April 2015].
- Ernstberger, J., Stich, M., & Hitz, J. (2012). Enforcement of Accounting Standards in Europe: Capital-Market-Based Evidence for the Two-Tier Mechanism in Germany, *European Accounting Review*, vol. 21, no. 2, p. 253-281. Available from: 10.1080/09638180.2011.641727. [9 April 2015].
- EU (2015). Regulations, Directives and other Acts, Available Online: http://europa.eu/eu-law/decision-making/legal-acts/index_en.htm [Accessed 22 April 2015].

- EY (2014a). EY News and views New and recent global policy developments [pdf], Available at: [http://www.ey.com/Publication/vwLUAssets/EY-News-and-views-January-2014/\\$FILE/EY-News-and-views-January-2014.pdf](http://www.ey.com/Publication/vwLUAssets/EY-News-and-views-January-2014/$FILE/EY-News-and-views-January-2014.pdf) [Accessed 8 May 2015].
- EY (2014b). European Union audit legislation, Point of view - Our perspective on issues of concern, 4/2014, Available Online: <http://www.ey.com/GL/en/Issues/Governance-and-reporting/Public-policy/EY-european-union-audit-legislation> [Accessed 8 May 2015].
- FAZ (2014). Mehr Verantwortung für den Aufsichtsrat – Die EU-Abschlussprüferreform nimmt Prüfungsausschuss in die Pflicht, *FAZ*, 21 July, p.18.
- FEE (2014). Guidebook to the European Audit Reform. A new environment for PIEs and their auditors in Europe, Mazars Communication, Ref Audit, May 2014, Available Online: <http://www.mazars.com/Home/News/Latest-News3/Guidebook-to-the-European-Audit-Reform> [Accessed 22 April 2015].
- Fiolleau, K., Hoang, K., Jamal, K., & Sunder, S. (2013). How Do Regulatory Reforms to Enhance Auditor Independence Work in Practice?, *Contemporary Accounting Research*, Vol. 30, no. 3 (Fall 2013), pp. 864–890.
- Flick, U. (1995). *Qualitative Forschung. Theorie, Methoden, Anwendung in Psychologie und Sozialwissenschaften*, Reinbek bei Hamburg: Rowohlt Taschenbuch-Verl.
- Fockenbrock, D. (2013). Als Bettvorleger gelandet, *Handelsblatt*, 19 December, p.27.
- Giersberg, G. (2015). Aufsichtsrat und Kontrollgremien nehmen Prüfer in die Zange, *FAZ*, 5 January, p.16.
- Ghauri, P. & Grønhaug, K. (2005). *Research Methods In Business Studies: A Practical Guide*, Third ed, n.p.: Harlow : Pearson Education Limited, 2005, Library catalogue (Lovisa), EBSCOhost, viewed 30 March 2015.
- Gschrei, M. (2015). wp.net-Stellungnahme zum Eckpunktepapier der Bundesregierung zur Reform der Wirtschaftsprüferordnung vom 13.02.2015 [pdf], Available at: <http://www.bmwi.de/BMWi/Redaktion/PDF/Stellungnahmen/Wirtschaftspr%C3%BCferordnung/verband-fuer-mittelstaendische-wirtschaftspruefung-wp-net,property=pdf,bereich=bmwi2012,sprache=de,rwb=true.pdf> [Accessed 8 May 2015].
- Gschrei, M. & Luxi, L. (2015). Tec-Dax: Münzregen für den Mittelstandler - Umschwung 2013 von Dauer?[pdf], *wp.net-Journal*, 03/2015, Available at: <http://www.wp-net.com/Journal2015/2015-03/wp.net-Journal-03-2015-final.pdf> [Accessed 8 May 2015].
- Hassink, H.F.D., Bollen, L.H., Meuwissen, R.H.G., Vries, de M.J. (2009). Corporate fraud and the audit expectations gap: A study among business managers, *Journal of International Accounting, Auditing, Taxation*, 18, pp.85-100.

- Haufe (2013). EU beschneidet die Macht der „Großen Vier“, *Haufe Online Redaktion*, 19 December, Available Online: http://www.haufe.de/unternehmensfuehrung/wirtschaftsmaerkte/wirtschaftspruefungsunternehmen-weniger-macht-fuer-grosse-vier_60_214048.html [Accessed 2 May 2015].
- Hayes, R.; Wallage, P. & Görtemaker, H. (2014). Principles of Auditing. An Introduction to International Standards on Auditing, 3rd edn, Harlow: Pearson Education.
- Hecht (2013). Wir werden kritisiert, zu hart zu sein, Interview with Michael Andrew, Chairman of KPMG International, *Die Presse*, 26 September 2013, p.15.
- Hennrichs, J. (2014). Abschlussprüferreform im Unionsrecht, Lecture University of Cologne, Available Online: http://www.jura.uni-koeln.de/fileadmin/sites/gesellschaftsrecht-bilanzrecht/downloads/Sonstiges/131120_He_Folien_ZGR_ext.pdf [Accessed 27 April 2015].
- Hsieh, H.S. & Shannon, S.E. (2005). Three Approaches to Qualitative Content Analysis, *Qualitative health research*, Vol. 15, No. 9, pp. 1277-1288.
- The Hofstede Center (n.d.). What about Germany?, Available Online: <http://geert-hofstede.com/germany.html> [Accessed 20 May 2015].
- Hopt, K.J. (2013). Die EU-Kommission übertreibt, *Handelsblatt*, 10 December 2013, p.13.
- Humphrey, C., Kausar, A., Loft, A., & Woods, M. (2011). Regulating Audit beyond the Crisis: A Critical Discussion of the EU Green Paper, *European Accounting Review*, Vol. 20, No. 3, pp.431–457.
- IAASB (2014). A Framework for Audit Quality: Key Elements that create an Environment for Audit Quality, *AT A GLANCE*, February 2014, Available Online: <http://www.mia.org.my/new/downloads/circularsandresources/circulars/2014/19/At%20a%20Glance%20A%20Framework%20for%20Audit%20Quality.pdf> [Accessed 20 May 2015].
- ICAEW (2015). Accounting in Germany, Available Online: <http://www.icaew.com/en/library/subject-gateways/accounting/accounting-by-country/germany> [Accessed 9 April 2015].
- IDW (2010). Stellungnahme Grünbuch: „Weiteres Vorgehen im Bereich der Abschlussprüfung: Lehren aus der Krise“ (KOM(2010) 561 endgültig), Available Online: <http://www.idw.de/idw/portal/d603688> [Accessed 8 May 2015].
- IDW (2011a). Conference organised by the European Commission Financial Reporting and Auditing A Time for a Change? 9-10 February 2011, Available Online: <http://www.idw.de/idw/portal/d606110> [Accessed 8 May 2015].

- IDW (2011b). Presseinformation 1/2011 - IDW: Stärkere Anbindung des Abschlussprüfers an die Überwachungsorgane löst viele Fragen des Grünbuchs, Available Online: <http://www.idw.de/idw/portal/d606110> [Accessed 8 May 2015].
- IDW (2011c). Presseinformation 10/2011 - IDW: EU-Kommissionsvorschlag zur Abschlussprüfung - Chance nicht genutzt, Available Online: <http://www.idw.de/idw/portal/d606110> [Accessed 8 May 2015].
- IDW (2012). Stellungnahme zu den Vorschlägen der EU-Kommission vom 30.11.2011 zum Europäischen System der Abschlussprüfungen, Available Online: <http://www.idw.de/idw/portal/d614984> [Accessed 8 May 2015].
- IFAC (2015). Audit Quality, Available Online: www.iaasb.org/projects/audit-quality [Accessed 20 May 2015].
- IFIAR (2014). 2014 IFIAR Member Profile Germany, Available Online: <https://www.ifiar.org/IFIAR/media/Documents/IFIARMembersArea/MemberUpdates/GERMANY.pdf> [Accessed 9 April 2015].
- Institut der Wirtschaftsprüfer in Deutschland e.V. (2007). About the IDW, Available Online: <http://www.idw.de/idw/portal/n589244/index.jsp> [Accessed 9 April 2015].
- Kaindl, A. (2012). Abschlussprüfung – EU-Kommission präsentiert Reform Vorschläge, *GENIOS WirtschaftsWissen*, 5 April.
- Kaindl, A. (2014). Abschlussprüfung – EU bestätigt Regulierungsvorschläge, *GENIOS WirtschaftsWissen*, 6 June.
- Köhler, A. (2010). Mandatory Rotation in the German Audit Market – a Scenario Analysis, Available Online: http://webcache.googleusercontent.com/search?q=cache:fiHn8uRIlp4J:www.idw.de/idw/download/Beitrag_Koehler_DL_engl.pdf%3Fid%3D619970%26property%3DDatei+%amp;cd=1&hl=en&ct=clnk&gl=se [Accessed 12 April 2015].
- Köhler, A. & Gehring, K. (2015). Externe Pflichtrotation des Abschlussprüfers – Implikationen für die Qualität der Abschlussprüfung, *Betriebs Berater*, March, pp.235-240.
- KPMG (2014a). Schwerpunkt Regulierung, *Audit Committee Quarterly das magazin für corporate governance*, 2/2014, pp.4-242.
- KPMG (2014b). EU audit reforms – the KPMG view [pdf], Available at: <https://www.kpmg.com/CH/en/auditcommittee/Documents/pub-20140407-eu-audit-reforms-the-kpmg-view-en.pdf> [Accessed 8 May 2015].

- KPMG (2014c). Nichtprüfungsleistungen durch den Abschlussprüfer, AUDIT COMMITTEE NEWS, Ausgabe 47 / Q4 2014.
- KPMG (2015). KPMG Global Audit Committee Survey [pdf], Available at: <https://www.kpmg.com/channelislands/en/IssuesAndInsights/ArticlesPublications/Documents/2015-global-audit-committee-survey.pdf> [Accessed 8 May 2015].
- Krauß, P., Pronobis, P., & Zülch, H. (2015). Abnormal audit fees and audit quality: initial evidence from the German audit market, *Journal of Business Economics*, no.85(1), pp.45-84.
- Krauß, P., Quosigk B.M., & Zülch, H. (2014). Effects of Initial Audit Fee Discounts on Audit Quality: Evidence from Germany, *International Journal of Auditing*, no. 18, pp.40–56.
- Lanfermann, G. (2015). Zur Zulässigkeit von Nicht-Prüfungsleistungen nach der EU-Abschlussprüferverordnung, *Betriebs Berater*, no.30, p.1771.
- Le Vourec'h, J. & Morand, P. (2011). Study on the effects of the implementation of the acquis on statutory audits of annual and consolidated accounts including the consequences on the audit market, 9 November, Available Online: http://ec.europa.eu/internal_market/auditing/docs/studies/201111-study_en.pdf [Accessed 4 April 2015].
- Lenz, H. (2015). Eckpunkte zur Umsetzung der EU-Abschlussprüferreform, Available Online: <http://www.bmwi.de/BMWi/Redaktion/PDF/Stellungnahmen/Wirtschaftspr%C3%BCferordnung/hansrudi-lenz,property=pdf,bereich=bmwi2012,sprache=de,rwb=true.pdf> [Accessed 21 April 2015].
- Lincoln, Y.S., & Guba, E.G. (1985). *Naturalistic inquiry*, Newbury Park, CA: Sage Publications.
- Lückmann, R. (2014). Wirtschaftsprüfung: Buhlen um Mandate, *VDI Nachrichten*, 14 March, no.11, p.16.
- Lünendonk®-Liste (2013). Führende Wirtschaftsprüfungs- Und Steuerberatungs-Gesellschaften In Deutschland, Available Online: <http://lunenendonk.de/pressefeed/neulunenendonk%C2%AE-liste-2013-%E2%80%9Efuhrrende-wirtschaftsprufungs-und-steuerberatungs-gesellschaften-in-deutschland%E2%80%9C> [Accessed 6 April 2015].
- Managermagazin (2015). Absturz vom Gipfel, *Manager Magazin*, 23 January, p.56.
- MarketLine (2013). Accountancy in Germany, August 2013, Reference Code: 0165-0415, Available through: www.marketline.com [Accessed 28 April 2015].

- Mayer, H.O. (2013). Interview und schriftliche Befragung. Grundlagen und Methoden empirischer Sozialforschung, 6 vol., München: Oldenbourg.
- Metzger, S. (2012). Mittelständische Wirtschaftsprüfer kämpfen in Brüssel, *Handelsblatt print*, vol. 22, 31 January 2012, p.26.
- Meuser, M. & Nagel, U. (1991). Experteninterviews – vielfach erprobt, wenig bedacht. Ein Beitrag zur qualitativen Methodendiskussion, in: Garz, D. & Kraimer, K. (eds.). *Qualitativ-empirische Sozialforschung*. Opladen: Westdeutscher Verlag, pp.441 – 468.
- Nicolas, Y. & Gélard, C. (2014). Some Positive Aspects of the Statutory Audit Reform in Europe, 22 July 2014, Available Online: <https://www.ifac.org/global-knowledge-gateway/viewpoints/some-positive-aspects-statutory-audit-reform-europe> [Accessed 27 March 2015].
- Nobes, C. & Parker, R. (2012). *Comparative International Accounting*, 12th edn, Harlow: Pearson Education Limited.
- Ollrog, A. (2015). Der EU ist die heutige Berufsaufsicht nicht unabhängig genug, *FAZ*, 31 March, p.V3.
- Power, M. (1999). *The Audit Society: Rituals of Verification*, Oxford: University Press.
- Quick, R. & Sattler, M. (2011). Das Erfordernis der Umsatzunabhängigkeit und die Konzentration auf dem deutschen Markt für Abschlussprüferleistungen, *ZfB Zeitschrift für Betriebswirtschaft*, No. 81, pp.61–98.
- Quick, R. & Warming-Rasmussen, B. (2009). Auditor Independence and the Provision of Non-Audit Services: Perceptions by German Investors, *International Journal of Auditing*, no.13, pp.141–162.
- Ratzinger-Sakel, N.V.S (2013). Auditor Fees and Auditor Independence—Evidence from Going Concern Reporting Decisions in Germany, *Auditing: A Journal of Practice & Theory*, vol. 32, no. 4, November, pp. 129–168.
- Regulation (EU) 537/2014 (2014). REGULATION (EU) No 537/2014 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC, 27 May, Available Online: <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014R0537&from=EN> [Accessed 27 March 2015].
- Pfitzer (2012). EU-reform der Abschlussprüfung Berichterstatter des Rechtsausschusses zerpfückt Entwurf der EU-Kommission zu Beratungsleistungen, *Der Schweizer Treuhänder*, December, pp.928-932.

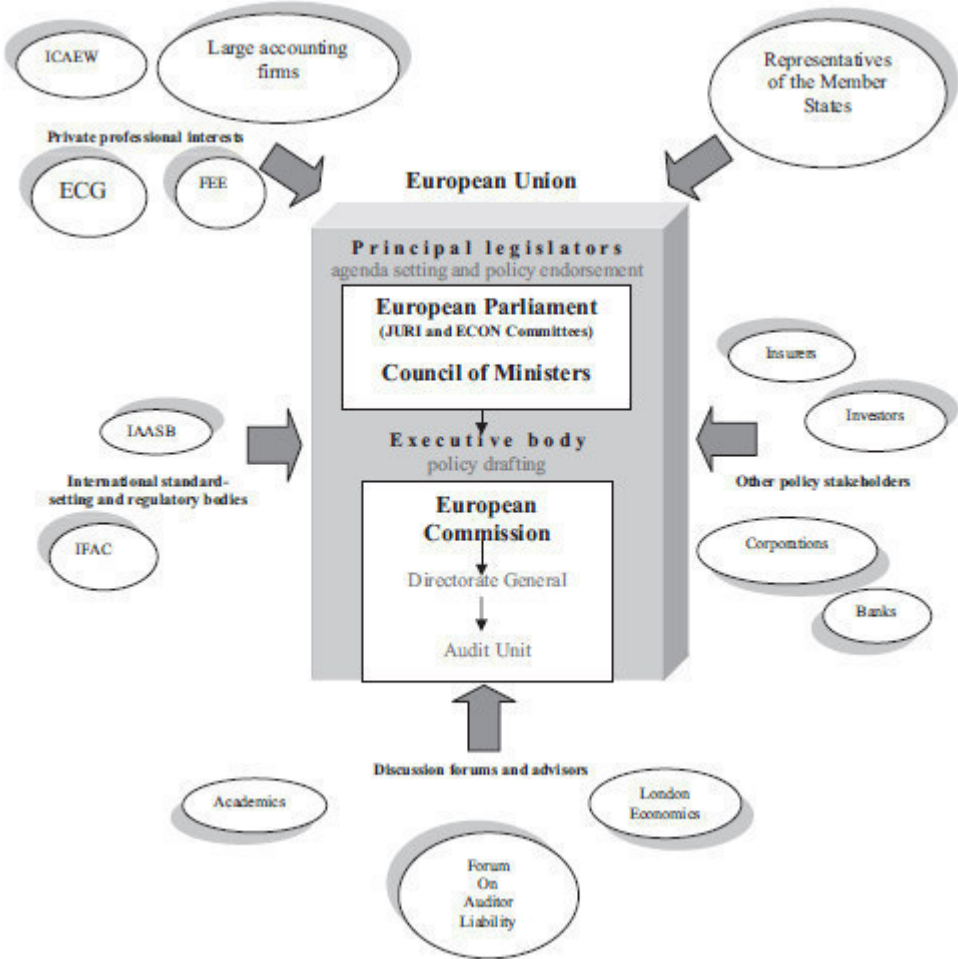
- Plendl, M. (2015). Bäumchen, Bäumchen wechsel dich, *FAZ*, 31 March, p.V5.
- Rose, N. & Miller, P. (1992). Political power beyond the State: problematics of government, *The British Journal of Sociology*, January, Vol. 43, Issue 2, pp. 173-205.
- Rogers, P. J., Petrosino, A., Huebner, T. A., & Hacsí, T. A. (2000). Program theory evaluation: Practice, promise, and problems. *New directions for evaluation*, 2000(87), 5-13.
- Rogers, P.J. (2007). Theory-Based Evaluation: Reflections Ten Years On, *New directions for evaluation*, no. 114, pp.63-81.
- Rossi, P.H., Freeman, H.E., & Libsey M.W. (2004). *Evaluation: A Systematic Approach*, Thousand Oaks: Sage Publications.
- Ruhnke, K. (2014). Gemischter Applaus für EU-Prüferreform, *Börsen-Zeitung*, 24 May, p.10.
- Ryan, G.W. & Bernard, H.R. (2003). Techniques to identify themes, *Field methods*, 15(1), pp.85-109.
- Samsonova-Taddei, A & Humphrey, C. (2015). Risk and the construction of a European audit policy agenda: The case of auditor liability, *Accounting, Organizations and Society*, no.41 (2015), pp. 55–72.
- Saunders, M., Lewis, P. & Thornhill, A. (2009). *Research Methods For Business Students*, n.p.: Harlow: Financial Times Prentice Hall, 2009, Library catalogue (Lovisa), EBSCOhost, viewed 30 March 2015.
- Scapens, R.W. (2007). *Using Case Studies in Accounting Research: The Role of Theory*, University of Manchester and University of Groningen Working Paper.
- Sharpe, G. (2011) A Review of Program Theory and Theory-Based Evaluation, *American International Journal of Contemporary Research*, vol.1, no.3, November, pp.72-75.
- Stahl, M. & Prundt, M. (2015). Mögliche Auswirkungen der EU-Reform der Abschlussprüfung auf die Arbeit der Aufsichtsräte in Deutschland, *Hans Böckler Stiftung Mitbestimmungsförderung*, January, Report no.6, pp.1-19.
- Tepalagul, N. & Lin, L. (2015). Auditor Independence and Audit Quality: A Literature Review, *Journal of Accounting, Auditing & Finance*, vol. 30(1), pp.101–121.
- The Economist (2013). The origins of the financial crisis. Crash course, *The Economist Newspaper Limited*, September 7, Available Online <http://www.economist.com/news/schoolsbrief/21584534-effects-financial-crisis-are-still-being-felt-five-years-article> [accessed 27 March 2015].

- Thomas, D.R. (2003). A general inductive approach for qualitative data analysis, School of Population Health University of Auckland, New Zealand, Available Online: <http://www.frankumstein.com/PDF/Psychology/Inductive%20Content%20Analysis.pdf> [Accessed 30 March 2015].
- Velte, P. (2014a). Abschluss der EU-Reform zur Abschlussprüfung – Ausgewählte Regulierungsmaßnahmen im Überblick, *Zeitschrift für das gesamte Genossenschaftswesen*, no.64(3), pp.245-252.
- Velte, P. (2014b). Rezension zur Festschrift zum 65. Geburtstag von Professor Dr. Dr. h.c. Wolfgang Ballwiesera, *zfbf Schmalenbachs Zeitschrift für betriebswirtschaftliche Forschung*, August/September, pp.514-516.
- Velte, P., Stiglbauer, M. (2012). Audit Market Concentration in Europe and its Influence on Audit Quality, *International Business Research*, no.11, Directory of Open Access Journals, EBSCOhost, viewed 27 April 2015.
- Verband für mittelständische Wirtschaftsprüfung (2015). Das APAK Debakel, *wp-net Journal*, 02/2015, pp.1-26.
- Verband für mittelständische Wirtschaftsprüfung (2014a). Presse-Information EU-Reform entlastet den Mittelstand und seine Wirtschaftsprüfer, Available Online: <http://www.presseportal.de/pm/113532/2749426/eu-reformen-entlasten-den-mittelstand-und-seine-wirtschaftspruefer> [Accessed 8 May 2015].
- Verband für mittelständische Wirtschaftsprüfung (2014b). Stellungnahme zur EU-Reform der Abschlussprüfung und Prüferaufsicht - Umsetzung der EU-RL 2014/56 und EU-VO 537/2014, Available at: <http://www.wp-net.com/MB/2014-34/2014-12-19-BMWi-StN-EU-Reform-wp.net-mA.pdf> [Accessed 8 May 2015].
- Volkman T. (n.d.). The Public Oversight System for Statutory Auditors in Germany, Tim Volkmann Secretary-General Auditor Oversight Commission (AOC), Worldbank (ed.), Available Online: http://siteresources.worldbank.org/EXTCENFINREPREF/Resources/4152117-1278448373484/volkman_role_of_govbody_in_pos.pdf [Accessed 9 April 2015].
- Wadewitz, S. (2013a). Prüferregulierung geht in die heiße Phase, *Börsen Zeitung*, 23 October, p.10.
- Wadewitz, S. (2013b). Die Prüfung bleibt das Kerngeschäft, *Börsen Zeitung*, 19 December, p.10.
- Wadewitz, S. (2014). Zentrifugalkräfte, *Börsen Zeitung*, 19 July, p.8.
- Weinstein, E.A. (2007). Whose Business Is It?, *The CPA Journal*, August, pp.25-29.

- Weiss, C.H. (1972). *Evaluation Research: Methods for Assessing Program Effectiveness*, Englewood Cliffs N.J.: Prentice Hall.
- Weiss, C.H. (1997). *Theory-Based Evaluation: Past, Present, and Future*, *New Directions for Evaluation*, no. 76 (1997): 41-55.
- Wirtschaftsprüferkammer (2015). Chamber of Public Accountants, Available Online: <http://www.wpk.de/eng> [Accessed 9 April 2015].
- Wittsiepe, R. (2015). Hinterzimmerdiplomatie gegen Mittelstand - IDW, APAK und WPK fördern weitere Marktberreinigung [pdf], Available at: <http://wp-net-verband.de/Journal2015/2015-03/wp.net-Journal-03-2015-secret.pdf> [Accessed 8 May 2015].
- WPK (2010). Stellungnahme der Wirtschaftsprüferkammer zum Grünbuch der EU-Kommission - Weiteres Vorgehen im Bereich der Abschlussprüfung: Lehren aus der Krise vom 08.12.2010, Available Online: <http://www.wpk.de/en/oeffentlichkeit/stellungnahmen/2010/> [Accessed 8 May 2015].
- WPK (2012). Stellungnahme der WPK Vorschlag der Europäischen Kommission für eine Richtlinie des Europäischen Parlaments und des Rates zur Änderung der Richtlinie 2006/43/EG über Abschlussprüfungen von Jahresabschlüssen und konsolidierten Abschlüssen [KOM(2011) 778 end.] und zum Vorschlag der Europäischen Kommission für eine Verordnung des Europäischen Parlaments und des Rates über spezifische Anforderungen an die Abschlussprüfung bei Unternehmen von öffentlichem Interesse [KOM(2011) 779 end.], Available Online: <http://www.wpk.de/en/oeffentlichkeit/stellungnahmen/2012/> [Accessed 8 May 2015].
- WPK (2013). WPK Marktstrukturanalyse 2013 [pdf], Available at: http://www.wpk.de/uploads/tx_templavoila/WPK_Marktstrukturanalyse_2013.pdf, [Accessed 8 May 2015].
- WPK (2014a). MITTEILUNGEN DER WIRTSCHAFTSPRÜFERKAMMER WPK - Magazin Mai 2014, *WPK Magazin*, 5/2015.
- WPK (2014b). MITTEILUNGEN DER WIRTSCHAFTSPRÜFERKAMMER WPK - Magazin Dezember 2014, *WPK Magazin*, 4/2014.
- WPK (2015). Stellungnahme der Wirtschaftsprüferkammer zum Eckpunktepapier des BMWi vom 6. Februar 2015 „Eckpunkte zur Umsetzung der EU-Abschlussprüferreform – Reform der Wirtschaftsprüferaufsicht und des Berufsrecht der Wirtschaftsprüfer/vereidigten Buchprüfer in der Wirtschaftsprüferordnung“ Berlin, den 20. Februar 2015, Available Online: <http://www.wpk.de/en/oeffentlichkeit/stellungnahmen/2015/> [Accessed 8 May 2015].

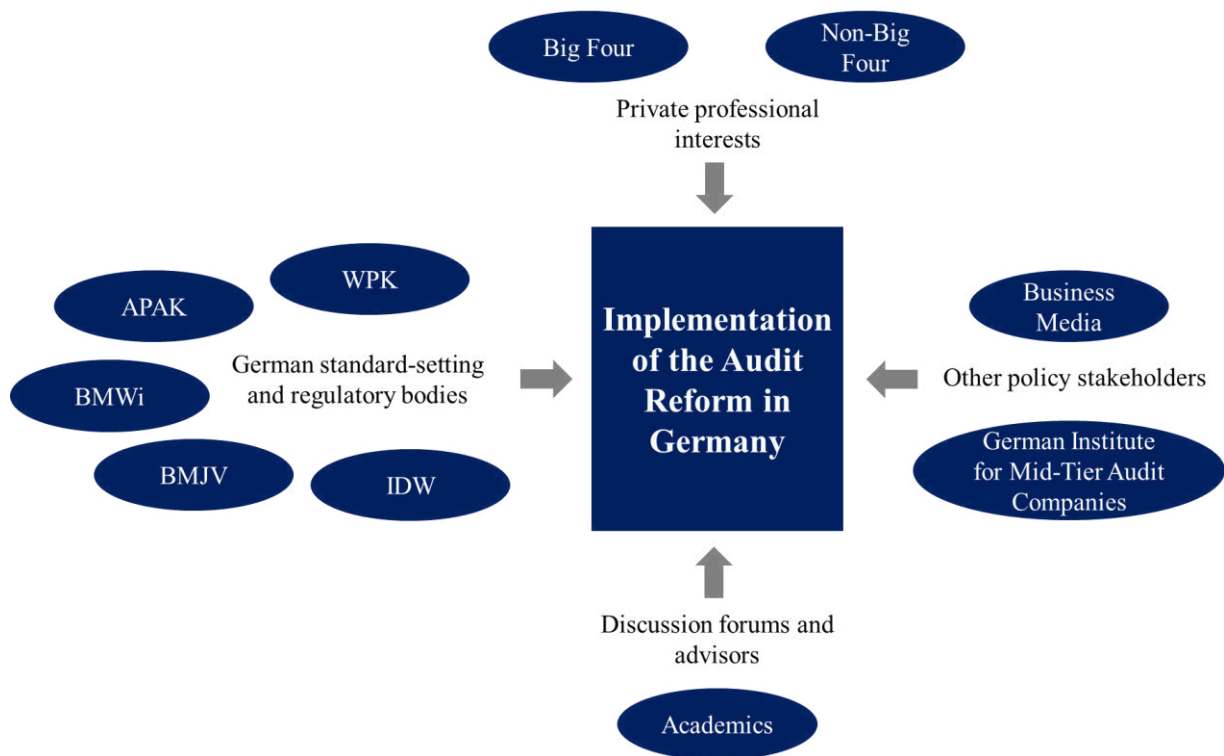
Wyatt, A.R. & Gaa, J.C. (2004). Accounting Professional - A Fundamental Problem and the Quest for Fundamental Solutions, *The CPA Journal*, March, pp.23-28.

Appendix A – Key Actors of Auditing in Germany



Key Transnational Interest Parties in European Auditing (Samsonova-Taddei & Humphrey, 2015, p. 60)

Applying the model of Samsonova-Taddei and Humphrey (2015) to Germany, the following actors are identified:



Key Actors of Auditing in Germany (Own Representation; based on Samsonova-Taddei & Humphrey, 2015, p.60)

Appendix B – Overview of Used Documents

German Auditing Institution

No. Of sources: 39; used: 20		
Authors	Titel	If German: English translation
AOC 2012	Abschlussprüferaufsichtskommission nimmt zu den Vorschlägen der EU-Kommission zur Regulierung der Abschlussprüfung Stellung	APAK comments the suggestions of the EC for audit regulation
AOC 2015	Eckpunktepapier zur Novelle der Wirtschaftsprüferordnung Stellungnahme der APAK	Key issue paper to new audit reform - statement of the APAK
Bundesministerium der Justiz (2015)	Referentenentwurf des Bundesministeriums der Justiz und für Verbraucherschutz Abschlussprüfungsreformgesetz – AReG	Regulation draft of the Ministry of Justice and Consumer Protection
Gschrei, M. & Luxi, L. (2015)	Tec-Dax: Münzregen für den Mittelstandler - Umschwung 2013 von Dauer?	Tec Dax: will the positive improvement for mid-tiers in 2013 sustain?
Gschrei, M. (2015)	wp.net-Stellungnahme zum Eckpunktepapier der Bundesregierung zur Reform der Wirtschaftsprüferordnung vom 13.02.2015	wp.net statement to key issue paper of the audit reform from 13th February 2015
IDW 2010	Stellungnahme Grünbuch: „Weiteres Vorgehen im Bereich der Abschlussprüfung: Lehren aus der Krise“ (KOM(2010) 561 endgültig)	Statement to the Green Paper: "Further steps in the audit reform: learnings from the crisis"
IDW 2011a	Conference organised by the European Commission Financial Reporting and Auditing A Time for a Change? 9-10 February 2011 Alcide de Gasperi Auditorium, Charlemagne Building 170 rue de la Loi, 1000 Brussels	
IDW 2011b	Presseinformation 1/2011 - IDW: Stärkere Anbindung des Abschlussprüfers an die Überwachungsorgane löst viele Fragen des Grünbuchs	Press release - IDW: Strong bond between auditor and oversight answers many question of the Green Paper
IDW 2011c	Presseinformation 10/2011 - IDW: EU-Kommissionsvorschlag zur Abschlussprüfung - Chance nicht genutzt	Press release - IDW: EC draft for audit reform - many chances are left out
IDW 2012	Stellungnahme zu den Vorschlägen der EU-Kommission vom 30.11.2011 zum Europäischen System der Abschlussprüfungen	Statement to EC's plans for the audit system
Verband für mittelständische Wirtschaftsprüfung (2015)	Das APAK Debakel	The APAK debacle

Verband für mittelständische Wirtschaftsprüfung (2014a)	Presse-Information EU-Reform entlastet den Mittelstand und seine Wirtschaftsprüfer	Press release: EU audit reform helps mid-tier companies and their auditors
Verband für mittelständische Wirtschaftsprüfung (2014b)	Stellungnahme zur EU-Reform der Abschlussprüfung und Prüferaufsicht - Umsetzung der EU-RL 2014/56 und EU-VO 537/2014	Statement to EU audit reform - Implications of Directive 2015/56 and Regulation 537/2014
Wittsiepe, R. (2015)	Hinterzimmerdiplomatie gegen Mittelstand - IDW, APAK und WPK fördern weitere Marktberreinigung	The backroom diplomacy against the mid-tier - IDW, APAK and WPK promote market concentration
WPK (2010)	Stellungnahme der Wirtschaftsprüferkammer zum Grünbuch der EU-Kommission - Weiteres Vorgehen im Bereich der Abschlussprüfung: Lehren aus der Krise vom 08.12.2010	Statement of the WPK to the Green Paper of the EC - next steps in auditing
WPK (2012)	Stellungnahme der WPK Vorschlag der Europäischen Kommission für eine Richtlinie des Europäischen Parlaments und des Rates zur Änderung der Richtlinie 2006/43/EG über Abschlussprüfungen von Jahresabschlüssen und konsolidierten Abschlüssen [KOM(2011) 778 end.] und zum Vorschlag der Europäischen Kommission für eine Verordnung des Europäischen Parlaments und des Rates über spezifische Anforderungen an die Abschlussprüfung bei Unternehmen von öffentlichem Interesse [KOM(2011) 779 end.]	Statement of the WPK: Proposal of the EX for a directive changing the Directive 2006/43/EG concerning audits and consolidated statements
WPK (2013)	WPK Marktstrukturanalyse 2013	Market analysis 2013 from the WPK
WPK (2014a)	MITTEILUNGEN DER WIRTSCHAFTSPRÜFERKAMMER WPK - Magazin Mai 2014	Statement of the WPK
WPK (2014b)	MITTEILUNGEN DER WIRTSCHAFTSPRÜFERKAMMER WPK - Magazin Dezember 2014	Statement of the WPK
WPK (2015)	Stellungnahme der Wirtschaftsprüferkammer zum Eckpunktepapier des BMWi vom 6. Februar 2015 „Eckpunkte zur Umsetzung der EU-Abschlussprüferreform – Reform der Wirtschaftsprüferaufsicht und des Berufsrecht der Wirtschaftsprüfer/vereidigten Buchprüfer in der Wirtschaftsprüferordnung“ Berlin, den 20. Februar 2015	Statement of the WPK to the key issues paper of the BMWi from 6th of February 2015 "Key issues of the implication of the EU audit reform"

German Audit Profession

No. of source: 19; used: 12		
Citation	Titel	Translation of titel
Buhleier, C.; Niehues, M. & Splinter, S. (2014a)	Corporate Governance Forum. Sonderausgabe zur Reform der Abschlussprüfung. Neuer Herausforderungen für Unternehmen, Aufsichtsräte und Abschlussprüfer	Corporate Governance Panel - Special Edition for the audit reform - New challenges for companies, the supervisory board and auditors
BDO (2014)	SONDERNEWSLETTER REFORM DER ABSCHLUSSPRÜFUNG	Special edition newsletter on EU audit reform
Buhleier, C.; Niehues, M. & Splinter, S. (2014b)	EU-Reform der Abschlussprüfung und Auswirkungen auf den Aufsichtsrat	EU audit reform and its implications for the supervisory board
Deloitte (2012a)	Informationen für Aufsichtsrat und Prüfungsausschuss	Information for the supervisory board and the audit committee
Deloitte (2012b)	Deloitte Audit Reform Briefing: Unprecedented reform proposed for the EU audit market	
Deloitte (2013)	Informationen für Aufsichtsrat und Prüfungsausschuss	Information for the supervisory board and the audit committee
EY (2014a)	EY News and views New and recent global policy developments	
EY (2014b)	European Union audit legislation	
KPMG (2014a)	Schwerpunkt Regulierung	Focus: Regulation
KPMG (2014b)	EU audit reforms – the KPMG view	
KPMG (2014c)	Nichtprüfungsleistungen durch den Abschlussprüfer	NAS from auditors
KPMG 2015	KPMG Global Audit Committee Survey	

German Business Media		
No. of sources: 45; used:35		
Citation	German Titel	Translation of titel
apa (2014)	Lücken in neuen Regeln für die Abschlussprüfung	Gaps in new rules for audits
Bauer, U.M. (2015).	Mehr Bewegung im Prüfermarkt, Auswirkungen der Neuregelung der Jahresabschlussprüfung in der EU	Movement in the audit market - impact of the new rules for audits in the EU
Betriebs Berater (2014)	Mit den Abschlussprüfern hatte der im Februar 2010 ernannte EU-Kommissar für Binnenmarkt und Dienstleistungen ...	The 2010 announced Eu commissioner for market and services wanted the auditors...
Boecker, C. Hartmann, S. & Zwirner, C. (2013)	Preis und Konzentration auf dem Abschlussprüfungsmarkt Überlegungen vor dem Hintergrund der Qualität von Abschlussprüfungen	Prices and Concentration in the audit market - Considerations regarding audit quality
Börsen-Zeitung (2013)	EU lässt Wirtschaftsprüfer rotieren	EU makes auditors rotate
Der Aufsichtsrat (2014a)	Gewandelter Aufsichtsrat und Prüfungsfremde Leistungen des Abschlussprüfers	Changes for the supervisory board and NAS
Der Aufsichtsrat (2014b)	WP-Markt in Bewegung	Audit market is moving
Der Betrieb (2015)	Der Referentenentwurf für eine Abschlussprüfungsreformgesetz - Viva Mitgliedstaatenwahlrecht	The draft regulation of the audit reform - long live the Member States' options
Die Steuerberatung (2014)	Neuer europäischer Rechtsrahmen für Abschlussprüfer veröffentlicht - DStV begleitet Umsetzung	New legal european framework for auditors - the DStV (German Tax Association) chapersones implementation
Dobler, Dobler & Fichtl (2013)	Beratung durch Abschlussprüfer in deutschen Familienunternehmen	Advisory Services in German family owned Businesses
FAZ (2014)	Mehr Verantwortung für den Aufsichtsrat -Die EU-Abschlussprüferreform nimmt Prüfungsausschuss in die Pflicht	More responsibilities for the audit committee - the EU audit reform takes the audit committee into responsibility
Fockenbrock (2013)	Als Bettvorleger gelandet	Reform ends as beside rug
Giersberg (2015)	Aufsicht und Kontrollgremien nehmen Prüfer in die Zange	Oversight and Control Boards put the screws on auditors
Haufe (2013)	EU beschneidet die Macht der "Großen Vier"	EU prunes power of Big Four
Hecht, J. (2013)	Wir werden kritisiert zu hart zu sein	We are criticised of being to harsh
Hopt (2013)	Die EU-Kommission übertreibt	The EU commission exaggerates
Kaindl (2012)	EU präsentierung Reformpläne	EU presents reform plans

Kaindl (2014)	Abschlussprüferreform - EU bestätigt Regulierungsvorschläge	Audit reform - EU confirms reforms measures
Köhler, A. & Gehring, K. (2015)	Externe Pflichtrotation des Abschlussprüfers - Implikationen für die Qualität der Abschlussprüfung	External rotation of auditors - implications for audit quality
Lanfermann, G. (2015)	Zur Zulässigkeit von Nicht-Prüfungsleistungen nach der EU-Abschlussprüferverordnung	Discussing legitimacy of NAS after the audit reform
Lückmann, R. (2014)	Wirtschaftsprüfung: Buhlen um Mandanten	Auditing: touting for mandates
managermagazin (2015)	Absturz vom Gipfel	Crash from the peak
Metzger S. (2012)	Mittelständische Wirtschaftsprüfer kämpfen in Brüssel - Die deutschen Vertreter von zehn Netzwerken wollen weiterhin Gemeinschaftsprüfungen durchsetzen - und so mehr Mandate bekommen.	Mid-sized auditors fight in Brussels - representatives from ten networks trying to push through joint audits in order to receive more mandates
Ollrog (2015)	Der EU ist die heutige Berufsaufsicht nicht unabhängig genug	The EU finds the German Oversight not to be independent
Pfitzer (2012)	EU-reform der Abschlussprüfung Berichterstatter des Rechtsausschusses zerpfückt Entwurf der EU- Kommission zu Beratungsleistungen	EU audit reform - correspondent of judiciary committee picks the draft for NAS to pieces
Plendl (2015)	Bäumchen, Bäumchen, wechsel dich	not possible to translate; German Children Game; implies something like the a merry-go-around in the reform
Ruhnke, K. (2014)	Gemischter Applaus für EU-Prüferreform	Mixed applause for the EU audit reform
Stahl, M. & Pundt, M. (2015)	Mögliche Auswirkungen der EU-Reform der Abschlussprüfung auf die Arbeit der Aufsichtsräte in Deutschland	Possible implications of the EU audit reform for the work of supervisory board members in Germany
Velte, P. (2014a)	Abschluss der EU-Reform zu Abschlussprüfung - Ausgewählte Regulierungsmaßnahmen im Überblick	Finalization of the EU audit reform - An overview of selected measures
Velte, P. (2014b)	Rezension zur Festschrift zum 65. Geburtstag von Professor Dr. Dr. h.c. Wolfgang Ballwieser	Review of the commemorative publication for Professor Dr. Dr. h.c. Wolfgang Ballwieser
Wadewitz, S. 2013a	Prüferregulierung geht in die heiße Phase	Final stage of audit regulation
Wadewitz, S. 2013b	Die Prüfung bleibt das Kerngeschäft	Audit stays the core business
Wadewitz, S. 2014	Zentrifugalkräfte	Centrifugal forces

Academics

No. Of Sources: 20; used: 14		
Authors	Titel	If German: English translation
Dobler, M. (2014)	Auditor-provided non-audit services in listed and private family firms	
Fiolleau, K., Hoang, K., Jamal, K., & Sunder, S. (2013)	How Do Regulatory Reforms to Enhance Auditor Independence Work in Practice?	
Hennrichs, J. (2014)	Abschlussprüferreform im Unionsrecht	Audit Reform in the european legal framework
Köhler, A.G. (2010)	Mandatory Rotation in the German Audit Market – a Scenario Analysis	
Krauß, P., Pronobis, P., & Zülch, H. (2015)	Abnormal audit fees and audit quality: initial evidence from the German audit market	
Krauß, P., Quosigk B.M., & Zülch, H. (2014)	Effects of Initial Audit Fee Discounts on Audit Quality: Evidence from Germany	
Le Vourc'h, J. & Morand. P. (2011)	Study on the effects of the implementation of the acquis on statutory audits of annual and consolidated accounts including the consequences on the audit market	
Lenz, H. (2015)	Eckpunkte zur Umsetzung der EU-Abschlussprüferreform	Cornerstones of the EU audit reform
MarketLine (2013)	Accountancy in Germany	
Quick, R. & Sattler, M. (2011)	Das Erfordernis der Umsatzunabhängigkeit und die Konzentration auf dem deutschen Markt für Abschlussprüferleistungen	The claim of turnover independence and the concentration in the German market for audit services
Quick, R. & Warming-Rasmussen, B. (2009)	Auditor Independence and the Provision of Non-Audit Services: Perceptions by German Investors	
Ratzinger-Sakel, N.V.S (2013)	Auditor Fees and Auditor Independence—Evidence from Going Concern Reporting Decisions in Germany	
Tepalagul, N. & Lin, L. (2015)	Auditor Independence and Audit Quality: A Literature Review	
Velte, P., Stiglbauer, M. (2012)	AUDIT MARKET CONCENTRATION IN EUROPE AND ITS INFLUENCE ON AUDIT QUALITY	

Appendix C – Interview Guideline

Dear XY,

As promised we hereby send you the interview guideline for our telephone interview. As mentioned earlier, we are researching whether the measures of the EU audit reform are in correspondence with the EC's intended objectives. We particularly focus our research on the opinion of German auditing actors.

Below you can find our guiding interview questions. We would like to have an open discussion with you and based on your input we will ask follow-up and/or specifying questions.

I Perception of EC's objectives of the audit reform

1. Do you see an emphasis from the European Commission in regard to the objectives of the EU audit reform? If yes, please specify.

II The following questions refer to the regulation 537/2014 regarding audits of PIEs

2. To what extent can the obligatory external rotation of audit companies reach the objective of

- 2.1 reinforced independence?
- 2.2 a more dynamic audit market?

3. It is argued that the obligatory external rotation of audit companies can contribute to increased audit quality. What is your opinion on this assumed correlation?

4. Can the prohibition of certain non-audit services and the limitation of non-audit fees increase independence of auditors?

5. Do you think that the enhanced role of the audit committee can contribute to

- 5.1 increased audit quality?
- 5.2 a more dynamic market?

III The following questions refer to the directive 2014/56/EU

6. To what extent can the strengthened national audit supervision authorities contribute to the objective of

- 6.1 increased independence?
- 6.2 harmonization of EU regulation in the audit market?
- 6.3 supervision of auditors in Germany?

As we would like to capture your subjective opinion on these topics, we have stated the questions quite broadly. Regarding the execution of the interview, we might ask further questions in between as mentioned above. Furthermore, if you wish to add information we hereby encourage you to do so.

Please find attached the current table of content as well as an abstract for your information. Please let us know if you have any questions. We are looking forward to talk to you on XY!

All the best,
Lisa Maier and Laura Warkotz

Example of interpreting question conducted by the interviewers to secure that justified conclusions can be drawn from the interviewees' answers:

II. 2.2 Do you think that there is a positive, negative or neutral correlation between mandatory external rotation and a more dynamic audit market? And why?

Expert 1: Actually, I think there is a negative correlation. In my opinion the Big Four will push the mandates back and forth among themselves. This results in a merry-go-around ... the big audit companies simply have the capacities to audit big companies and the small ones do not have these capacities. In the end, it is all about capacities. It just does not work otherwise... So all in all I believe that a more dynamic audit market cannot be reached, simply because the mid-tier and smaller audit companies do not have the sufficient capacities.

Expert 3: I do not think that this reform will break up the oligopoly that we have at the moment. Small audit companies like mine are simply not made to audit PIEs ... Absolutely due to the missing capacities we are not able to audit those big mandates. Also, the mid-tier and the bigger mid-tier audit companies will have trouble to get the whole organization done... like organizing audits in many countries at the same time. So this rotation thing might have good intentions but I do not see it in reality. ... It will not change the market concentration for Big audit mandates. And personally, me as a small audit company I do not think about those mandates anyways.

Appendix D – Coding Categories

Impact of the Obligatory External Rotation of PIEs on the Corresponding Objectives

- Interpretation of the Measure Itself
 - Affected Companies
 - Point of Rotation
- Effects on Independence ('1A')
 - Reduced Familiarity by Mandatory External Rotation
 - Questionable Intervening Process between External Rotation and Independence
 - Legal Grey Zone
- Effects on Clarify Societal Role (Quality) ('1B')
 - Weak Intervening Process between External Rotation and Audit Quality
 - Loss of Knowledge
 - Questionable Effects of Low-Balling
- Effects on Market Diversification ('1C')
 - Necessity to Increase Diversification by Mandatory External Rotation
 - Intervening Process between Mandatory External Rotation and Market Diversification
 - Missing Capacities and Competences of non-Big Four Companies
 - Direction of Change
- Side Effect on Cross-Border Provision ('1D')
- Side Effect on the Audit Committee

Impact of Prohibition of Specific Non-Audit Services and the Limitation of Non-Audit Fees on the Objectives

- Current NAS and Fee-Limit Rules in Germany
 - Current Application: Total Volume Fee-Limit
 - Current Application: Prohibition of NAS
 - Current Application: NAS Fee-Limit
 - German Audit Market Fee Distribution
- Effects on Independence ('2A')
 - Increased Independence in Appearance
 - Increased Independence in Mind
 - No Impact on Independence in Mind
 - Volume Fee-Limit of §319a HGB is Sufficient
- Side Effect on Clarify Societal Role (Quality) ('2B')
 - Correlation between Specialized Knowledge, Costs and Audit Quality
 - NAS and the Effect on Societal Role of Auditor Depends on Company Characteristic
 - Tax Services Improve Audit Quality
- Effects on Market Diversification ('2C')
 - Increased Market Concentration by Volume Fee-Limit
 - Shift from Auditing to Advisory
- Side Effect on Cross-Border Provision ('2D')

Impact of the Enhanced Role of the Audit Committee of PIEs on the Objectives

- Discussion of the Measure Itself
 - Strong Support for the Enhancement of the Audit Committee
 - Assembly of the audit committee - the 'financial expert'
- Effects on Reinforced Independence ('3A')
- Effects on a Clarified Societal Role ('3B')

- Increased Information exchange is questionable
- Expectation Gap cannot be closed
- Contribute to a more Dynamic Market ('3C')
 - Tendering will increase diversification
 - Tendering is not able to increase diversification
- Oversight Coupled with the Enhanced Audit Committee Has Ability to Increase Audit Quality

Impact of the Strengthened Public Oversight Authorities on the Objectives

- Interpretation and Construction of the national oversight in Germany
 - Questionable necessity
 - Structure of national oversight
- Effects on Independence ('4A')
 - Independence from profession and Financial Independence
 - Professional Competences of the National Oversight Authority
 - Increased national oversight leads to more independence
- Effects on Clarified Societal Role (Quality) ('4B')
 - Increased competences on national level
 - Increased competences and know-how on EU level
- Effects on Market Diversification ('4C') : Interests of small and mid-tier audit companies
- Facilitate Cross-Border Provision ('4D'): Need for harmonization on EU-level in audit?
- Improve supervision and Coordination ('4E')
 - Conditionfs for Success On national level
 - Exchange of information between Member States trough CEAOB

**Appendix E: Development of audit reform based on information on the European Commission's website
Own Representation, List is not exhaustive**

	Categories	Green Paper 2010	European Commission 30 November 2011	European Commission 16 June 2014
Measures	Substantive verification	"The Commission wishes to explore the case for "going back to basics" with a strong focus on substantive verification of the balance sheet and less reliance on compliance and systems work" (EC, 2010a, p.7)	"It should also explain the variation in the weighting of substantive and compliance testing when compared to the previous year." (EC Proposal Regulation, 2011, p. 7)	Substantive verification is not mentioned anymore -> DELETED
	Audit Report: external communication	"One has to consider whether informative matters e.g. potential risks, sectoral evolution, commodity and exchange rate risk, etc. being provided together or as part of the auditor's report may provide more value to stakeholders." (EC, 2010a, p.7-8)	"The content of the audit report disclosed to the public is expanded so that it explains the methodology used, especially how much of the balance sheet has been directly verified and how much has been based on system and compliance testing, the levels of materiality applied to perform the audit, the key areas of risk of material misstatements of the financial statements, whether the statutory audit was designed to detect fraud and, in the event of a qualified or adverse opinion or a disclaimer of opinion, the reasons for such a decision." (EC Proposal Regulation, 2011, p. 7) Furthermore: "indicate the date of the appointment and the period of total uninterrupted engagement including previous renewals and reappointments; (r) indicate the non-audit services that the audit committee allowed the statutory auditor or the audit firm to provide to the audited entity; The audit report shall not be longer than four pages or 10000 characters" (EC Proposal Regulation, 2011, p.42-43)	Major weakening: all facts mentioned in the proposal BUT "methodology used, especially how much of the balance sheet has been directly verified and how much has been based on system and compliance testing, the levels of materiality" must now only be published to the audit committee not to the public --> not for external communication; (Regulation (EU) 537/2014, 2014, L158/91). "Indicate the date of the appointment and the period of total uninterrupted engagement including previous renewals and reappointments" (Regulation (EU) 537/2014, 2014, L158/90). "Indicate any services, in addition to the statutory audit" (Regulation (EU) 537/2014, 2014, L158/90). DELETED: size of report
	Audit report: internal communication	Better internal communication (long-form report to supervisory board as in Germany) (EC, 2010a, p. 8)	"An additional more detailed audit report for the audit entity itself which will provide detailed information on the audit carried out to the audit committee and management" (EC Proposal Regulation, 2011, p.7).	The additional report to the audit committee is even more extended since the proposal, some facts are added and some facts that the proposal wanted to publish to the public are now only in the report to the audit committee (see column audit report external communication).(Regulation (EU) 537/2014 2014, L158/92). "The member states can require that the additional report is also submitted to the administrative and supervisory board" (Regulation (EU) 537/2014, 2014, L158/91).
	Independent check of CSR report	"The question should be raised whether there might be a need for an independent check [of CSR report] on the reported information and whether auditors should play a role in this regard." (EC, 2010a, p.8-9)	DELETED	-
	Audit Report: financial outlook	"It is important to consider ... the extent to which auditors should themselves provide an economic and financial outlook of the company" (EC, 2010a, p.9)	DELETED	"The scope of the statutory audit shall not include assurance on the future viability of the audited entity or on the efficiency or effectiveness with which the management or administrative body has conducted or will conduct the affairs of the entity" (Directive 2014/56/EU, 2014, p. L158/211).

Appendix E: Development of audit reform based on information on the European Commission's website

Own Representation, List is not exhaustive

	Categories	Green Paper 2010	European Commission 30 November 2011	European Commission 16 June 2014
Measures	ISA	"The Commission is considering when and how to introduce ISAs in the EU. The introduction could be done via binding or non binding Community law instruments." (EC, 2010a, p.10)	"Compliance with the International Standards on Auditing (ISAs) by all statutory auditors and audit firms. Member States should ensure that the audit standards are adapted to the size of the audited entity to ensure a proportionate and simplified audit for SMEs." (EC Proposal Directive, 2011, p.7)	"The Commission shall be empowered to adopt by means of delegated acts in accordance with Article 39 the international auditing standards referred to in Article 26 of Directive 2006/43/EC in the area of audit practice, and the independence and internal quality controls of statutory auditors and audit firms for the purposes of their application within the Union" (Regulation (EU) 537/2014, 2014, p. L158/90)
	Third party appointment of audit company	"The Commission is considering the feasibility of a scenario where the audit role is one of statutory inspection wherein the appointment, remuneration and duration of the engagement would be the responsibility of a third party, perhaps a regulator, rather than the company itself." (EC, 2010a, p.11)	DELETED ?	-
	Mandatory Rotation	"In this context, the mandatory rotation of audit firms – not just of audit partners – should be considered. ... To prevent partners from changing firms to "take along" certain clients with them, rotation rules, if adopted, should ensure that not only firms, but partners are also rotated." (EC, 2010a, p.11)	The regulation introduces mandatory rotation of audit firms after a maximum period of 6 years that may be, under certain exceptional circumstances, extended to 8 years (decided by competent authority). Mandatory rotation might be extended to 9 years if two audit firms are used (exceptional 12 years decided by competent authority). A cooling off period of 4 years will be applicable. (EC Proposal Regulation, 2011, p.8) Internal rotation of key audit partners of 7 years with a cooling off period of 3 years (EC Proposal Regulation, 2011, p. 56) and the audit firm shall establish "an appropriate gradual rotation mechanism with regard to the most senior personnel" (EC Proposal Regulation, 2011, p. 56). Transitional periods are suggested (EC Proposal Regulation, 2011, p.82-83)	Introducing mandatory rotation of statutory auditors and audit firms every 10 years. A cooling off period of 4 years applies. Can be extended to 20 years where a public tendering process for the statutory audit is conducted, can be extended to 24 years when joint audit has been conducted. On an exceptional basis the competent authority can further extend the maximum duration for 2 more years. Internal rotation of key audit partners of 7 years with a cooling off period of 3 years and the audit firm shall establish an appropriate gradual rotation mechanism with regard to the most senior personnel. (Regulation (EU) 537/2014, 2014, L158/97-99). Transitional periods are established but they are longer than in the EC Proposal Regulation of 2011 (Regulation (EU) 537/2014, 2014, p. L 158/111-112)

Appendix E: Development of audit reform based on information on the European Commission's website
Own Representation, List is not exhaustive

Measures	Categories	Green Paper 2010	European Commission 30 November 2011	European Commission 16 June 2014
	Prohibition of non-audit services	<p>"The Commission would like to examine reinforcing the prohibition of non-audit services by audit firms. This could potentially result in the creation of "pure audit firms" akin to inspection units." (EC, 2010a, p.12)</p>	<p>"Auditors will be prohibited from providing non-audit services to audit clients. The provision of non-audit services to non-audit clients is allowed. Large audit firms will be required to separate their audit activities into pure audit firms i.e. a complete ban on the provision of non-audit services by the large audit firms." (EC Proposal Regulation, 2011, p. 6). "For of this Article, non-audit services shall mean: (a) services entailing conflict of interest in all cases: such as expert services unrelated to the audit, tax consultancy, general management and other advisory services; or designing and implementing internal control or risk management procedure related to the preparation and/or control of financing information included in the financial statements and advice on risk; (b) services which may entail conflict of interest such as providing comfort letters or due diligence." (EC Proposal Regulation, 2011, p. 30-31)</p>	<p>"Prohibited non-audit services shall mean: (a) special tax services (b) services that involve playing any part in the management or decision-making of the audited entity; (c) bookkeeping and preparing accounting records and financial statements; (d) payroll services; (e) designing and implementing internal control or risk management procedures related to the preparation and/or control of financial information or designing and implementing financial information technology systems; (f) valuation services, including valuations performed in connection with actuarial services or litigation support services; (g) some legal services, (h) services related to the audited entity's internal audit function; (i) services linked to the financing, capital structure and allocation, and investment strategy of the audited entity, except providing assurance services in relation to the financial statements, such as the issuing of comfort letters in connection with prospectuses issued by the audited entity; (j) promoting, dealing in, or underwriting shares in the audited entity; (k) some human resources services" --> Member states may prohibit services other than those and allow services included in the list under certain circumstances. (Regulation (EU) 537/2014, 2014, p. L158/86-87) --> Interesting example: no need for approval by the competent authority in regard to due diligence or comfort letters to investors, whereas in the proposal there was a possible threat to conflict of interest</p>
Financial audit services - Definition	<p>Not included</p>	<p>"The fees for the provision of related financial audit services to the audited entity should be limited to 10 % of the audit fees paid by that entity. Financial audit services include: (a) the audit or review of interim financial statements; (b) providing assurance on corporate governance statements; (c) providing assurance on corporate social responsibility matters; (d) providing assurance on or attestation of regulatory reporting to regulators of financial institutions beyond the scope of the statutory audit and designed to assist regulators in fulfilling their role, such as on capital requirements or specific solvency ratios determining how likely an undertaking will be to continue meeting its debt obligations; (e) providing certification on compliance with tax requirements where such attestation is required by national law; (f) any other statutory duty related to audit work imposed by Union legislation to the statutory auditor or audit firm." (EC Proposal Regulation, 2011, p. 30).</p>	<p>Not applicable anymore</p>	

Appendix E: Development of audit reform based on information on the European Commission's website

Own Representation, List is not exhaustive

Categories	Green Paper 2010	European Commission 30 November 2011	European Commission 16 June 2014
Limit audit fees total fee and NAS-fee	Examine "a limit to the proportion of fees an audit firm can receive from a single audit client compared to the total audit revenues of the firm. could be envisaged along with appropriate disclosures" (EC, 2010a, p.12)	"Additionally, where the total fees, audit and related financial audit services, received by an auditor from a PIE reach more than 20 % or, for two consecutive years, more than 15 % of the of the total annual fees received by the statutory auditor or audit firm carrying out the statutory audit, such auditor or firm shall disclose to the audit committee the fact and appropriate safeguards should be applied. If total fees from one PIE more than 15% for two years, then the authority has to be informed by the auditor. Then the authority decides if the audit can be continued for not more than 2 years" (EC Proposal Regulation, 2011, p. 29). The fees for the provision of related financial audit services to the audited entity should be limited to 10 % of the audit fees paid by that entity (EC Proposal Regulation, 2011, p. 30).	Related financial services is deleted from article 4; "Total fees received by an auditor from a PIE for three consecutive financial years are limited to 15%. If these 15% are exceeded the audit committee shall decide whether the statutory auditor or the audit firm or the group auditor, can continue, but not more than two years." (European Regulation, 2014, p. L158/86). "Non-audit services other than those referred to in Article 5(1) of this Regulation, the total fees for such services shall be limited to no more than 70 % of the average of the fees paid in the last three consecutive financial years for the statutory audit(s) of the audited entity and, where applicable, of its parent undertaking, of its controlled undertakings and of the consolidated financial statements of that group of undertakings." (Regulation (EU) 537/2014, 2014, p. L158/85)
Auditing of audit companies / Transparency report of audit companies	"How to achieve more transparency with regard to the audit firm's own financial statements" (EC, 2010a, p.12)	"Auditors will be required to disclose financial information, showing in particular their total turnover divided into audit fees paid by PIEs, audit fees paid by other entities and fees for other services. ... The transparency reports of auditors of PIEs should be completed by a statement on the firms' own corporate governance." (EC Proposal Regulation, 2011, p. 7). Furthermore, "a list of public-interest entities for which the statutory auditor or audit firm has carried out statutory audits during the preceding financial year and a list of the entities from which the statutory auditor or audit firm receives more than 5% of its annual revenue" has to be established (EC Proposal Regulation, 2011, p. 49).	Same as proposal, but deleting the list of entities from which the auditor receives more than 5% of its annual revenue (Regulation (EU) 537/2014, 2014, p.L158/95) and deleting the corporate governance statement which was proposed in the 2011 proposal, there is just left a description of the governance structure (Regulation (EU) 537/2014, 2014, p. L158/94)
Code of governance for audit firms	"Code of governance for audit firms" (EC, 2010a, p.12)	"Establishing additional requirements on the internal organization and governance of audit firms". (EC Proposal Regulation, 2011, p.17)	DELETED
Ownership rules for audit firms	"Revisiting Ownership Rules of audit firms" (EC, 2010a, p.12)	Permitting broader ownership structure for audit firms (EC Proposal Directive, 2011, p.6)	DELETED

**Appendix E: Development of audit reform based on information on the European Commission's website
Own Representation, List is not exhaustive**

Categories	Green Paper 2010	European Commission 30 November 2011	European Commission 16 June 2014	
Measures	Oversight bodies	"The supervision of audit firms in Europe must be performed on a more integrated basis, with closer cooperation between the national audit oversight systems. One possible option could be to transform the EGAOB into a so-called "Lamfalussy Level 3 Committee". ... Another option could be the establishment of a new European Supervisory Authority or the integration of audit matters into one of the supervisory authorities which are being established under the Commission's financial supervision proposals. ... The Commission would like to consider whether communication between the auditors and the relevant securities regulator should become mandatory to all large or listed companies; special consideration could also be given to communication with appropriate authorities in the case of fraud within companies." (EC, 2010a, p. 14-15)	"EU-level cooperation by the European Securities and Markets Authority (ESMA). National audit supervisory authorities would be strengthened. The mandate, powers and independence requirements for audit supervisors would be established at EU level, but supervision would be carried out nationally." (EC Proposal Directive, 2011, p.8). "Each Member State should designate a competent authority responsible for the supervision of auditors and audit firms auditing PIEs." (EC Proposal Regulation, 2011, p.8). "The regulation requires that the EU-wide cooperation between competent authorities takes place within ESMA" (EC Proposal Regulation, 2011, p.9). "The powers to adopt supervisory measures and the sanctioning powers of competent authorities are enhanced" (EC Proposal Regulation, 2011, p.10). Sanctions in the regulation are extended to strengthen the power of oversight bodies (EC Proposal Regulation, 2011, p.78)	"The cooperation between competent authorities should be organized within the framework of a Committee of European Auditing Oversight Bodies (CEAOB), which should be composed of high-level representatives of the competent authorities. In order to enhance consistent application of this Regulation, the CEAOB should be able to adopt non-binding guidelines or opinions. In addition, it should facilitate the exchange of information, provide advice to the Commission and contribute to technical assessments and technical examinations. For the purpose of carrying out the technical assessment of public oversight systems of third countries and to the international cooperation between Member States and third countries in this area, the CEAOB should establish a sub-group chaired by the member appointed by the European Supervisory Authority (European Securities and Markets Authority — ESMA) (2) and should request the assistance from ESMA" (Regulation (EU) 537/2014 2014, L158/82). Sanctions are extended but they are not in the regulation anymore, instead in the directive. (Directive 2014/56/EU, 2014, p.L158/215)
	Mandatory joint audits	"... the Commission could consider introducing the mandatory formation of an audit firm consortium with the inclusion of at least one non-systemic audit firm for the audits of large companies." (EC, 2010a, p.16)	DELETED	-
	Quality Certification of Audit Firms	"The creation of a European quality certification for audit firms" (EC, 2010a, p.16)	"European certification of audit firms recognizing their aptitude to perform high quality audits of listed companies. The certificates would be issued by ESMA" (EC Proposal Directive, 2011, p.6). "A 'voluntary' pan-European audit quality certification is introduced to increase the visibility, recognition and reputation of all audit firms having capacities to conduct high quality audits of PIEs." (EC Proposal Regulation, 2011, p.9)	"The amended Directive ... establishes a "European passport" for audit firms in order to facilitate cross-border mobility within the EU and strengthen the single market for audit." (EC, 2014b; see Directive 2014/56/EU, 2014, L 158/204)
	Quality Certification of Auditors	"European passport for auditors" (EC, 2010a, p.18)	"Mutual recognition of statutory auditors approved in Member States to ensure cross-border mobility of auditors." Either through an aptitude test or an 3-year supervised adaptation period (EC Proposal Directive, 2011, p.7)	"Mutual recognition of statutory auditors approved in Member States to ensure cross-border mobility of auditors." Either through an aptitude test or an 3-year supervised adaptation period" (Directive 2014/56/EU, 2014, p. L158/205)
	Contractual Clauses	"The Commission will also seek to address the issue of ... "Big Four only clauses"" (EC, 2010a, p.16)	Prohibition of Big 4-only contractual clauses (clauses requiring that the audit is undertaken by one of the Big 4 firms). (EC Proposal Directive, 2011, p.8) and (EC Proposal Regulation, 2011, p.8)	Prohibition of contractual clauses (Directive 2014/56/EU, 2014, p.L158/22) and (Regulation (EU) 537/2014, 2014, L158/97)
	Contingency Plan	Contingency plan for big Four companies (EC, 2010a, p.16-17)	The supervisory authorities are required to "ask large audit firms to establish contingency plans" (EC Proposal Regulation, 2011, p.9)	DELETED

Appendix E: Development of audit reform based on information on the European Commission's website

Own Representation, List is not exhaustive

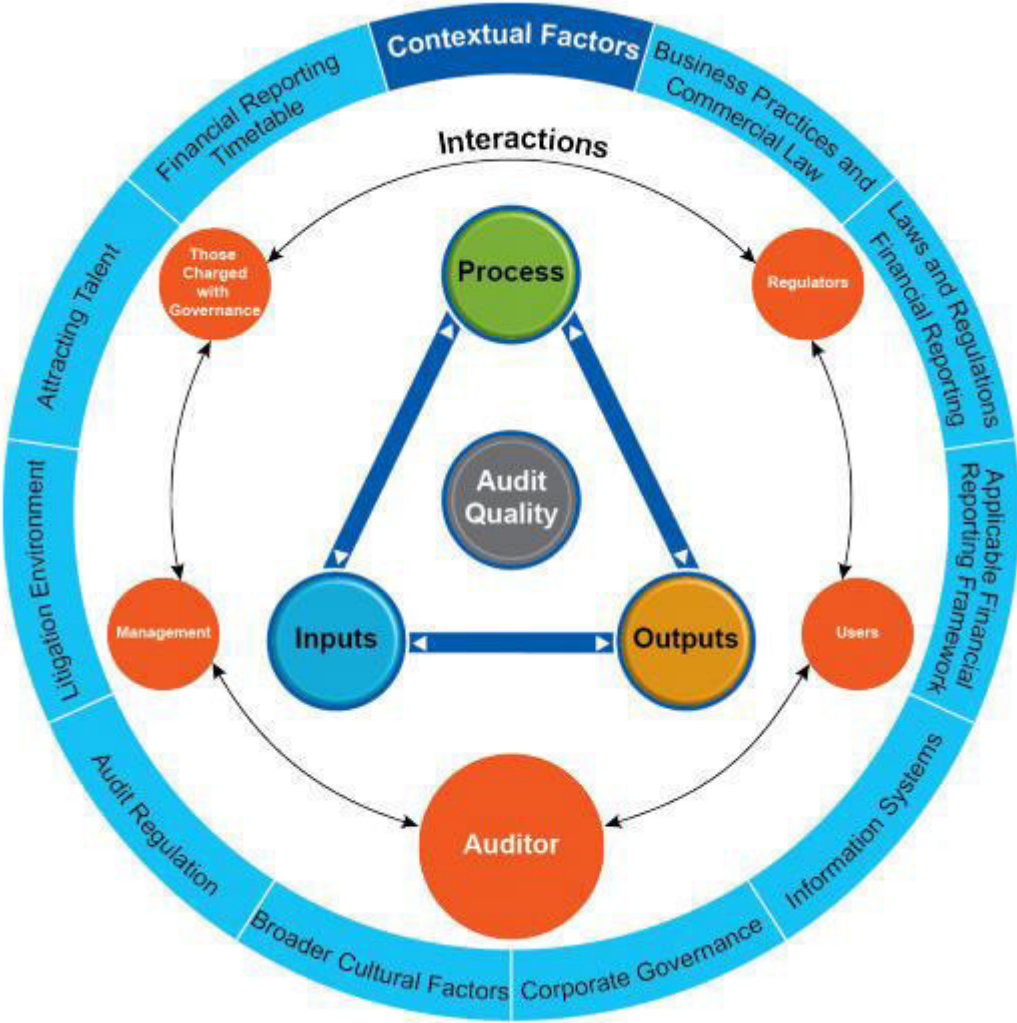
		Green Paper 2010	European Commission 30 November 2011	European Commission 16 June 2014
Measures	SMEs	Simplify audits for SMEs (EC, 2010a, p.18-19)	SMEs "would no longer be required by EU law to have their financial statements audited, although Member States may still require it." If so: audits have to be "adapted to the dimension and scale of those undertakings" (EC Proposal Directive, 2011, p.8)	"Article 34 of Directive 2013/34/EU of the European Parliament and of the Council (2) does not require small undertakings to have their financial statements audited." (Regulation (EU) 537/2014, 2014, p. L 158/200
	Enhanced Role of Audit Committee	"Regular dialogue should be assured between the company's Audit Committee, the external i.e. statutory auditor as well as the internal auditor." (EC, 2010a, p.8)	Stricter rules on the appointment of auditors with an increased role for the audit committee. "The audit committee's recommendation for the appointment of an auditor should be discussed at the general meeting of shareholders. The audit committee's independence and technical competence should be reinforced: at least two of its members must be independent and at least one member of the audit committee shall have competence in auditing and another member in accounting and/or auditing. Regular dialogue will be held between auditors, audit committees and supervisors." (EC Proposal Regulation, 2011, p. 8)	Content is basically the same, but the regulation proposals of 2011 moved into the directive 2014. And at least one member of the audit committee shall have competence in accounting and/or auditing (Directive 2014/56/EU, 2014, p. L158/221).
	Mandatory tendering	Mandatory tendering (EC, 2010a, p.16)	"Mandatory tendering for audit mandates by audit committee of the audited company" (EC Proposal Regulation, 2011, p. 8)	Mandatory tendering as suggested in proposal 2011

Appendix F – Sources Justifying the Intervening Process

Objective	Reinforce Independence	Clarify Societal Role	Contribute to a Dynamic Audit Market	Facilitate Cross-Border Provision	Improve Supervision & Coordination
Rotation	1A) Regulation (EU) 537/2014, #21	1B) EC, 2014b, Online	1C) EC, 2014b, Online	-	-
NAS/Fee-Limit	2A) Regulation (EU) 537/2014, #7-8; EC, 2014b, Online	-	2C) EC, 2014b, Online	-	-
Supervisory Board / Audit Committee	3A) Regulation (EU) 537/2014, #7	3B) Regulation (EU) 537/2014, #7, #14, #21; Directive 2014/56/EU, 2014, #5, #24; EC, 2014b,	3C) Regulation (EU) 537/2014, #18; EC, 2014b, Online	-	-
Oversight	4A) Regulation (EU) 537/2014, #22	4B) Regulation (EU) 537/2014, #12, #23, #24, #27; Directive 2014/56/EU, 2014,	4C) Regulation (EU) 537/2014, #25, #30; EC, 2014b, Online	4D) Directive 2014/56/EU, 2014, #3, #4, #22	4E) Regulation (EU) 537/2014, #27, #29

Sources which justify the intervening processes between the measures and objectives as represented in chapter 4.3 (Own Representation)

Appendix G – A Framework for Audit Quality



A Framework for Audit Quality: Key Elements that create an Environment for Audit Quality (IAASB, 2014, p.3)